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Wal-Mart Named Retailer of the Decade

NEW YORK — Can you imagine one company which operates in a territory with less than 50 percent of the U.S. population adding almost as much sales as Woolworth's worldwide revenues of $8 billion? Or, how about going from $1 billion in *sales* to $1 billion in *profits* in just 10 years?

Can you envision one company adding as much sales over the next five years (1989 to 1993) as K mart and Sears each had last year? Or, that this company's growth in profits will be greater than its sales growth over the next couple of years?

Can you believe that *conservative* estimates project this company's sales to exceed $32 billion in 1990, $50 billion by 1993 and $70 billion by 1995?

The company, of course, is Wal-Mart. And the above observations—posed by several retail analysts and industry observers—point out just a few of the many amazing accomplishments of the Bentonville, Ark.-based discounter.

Wal-Mart, the most dominant, aggressive retailer of the 1980s, has been named Retailer of the Decade by *Discount Store News*. In recognition of this achievement, *DSN* will dedicate its entire December 1989 issue to exploring the secrets behind Wal-Mart's success.

Discount Store News®

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SECOND CLASS

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July 3, 1989

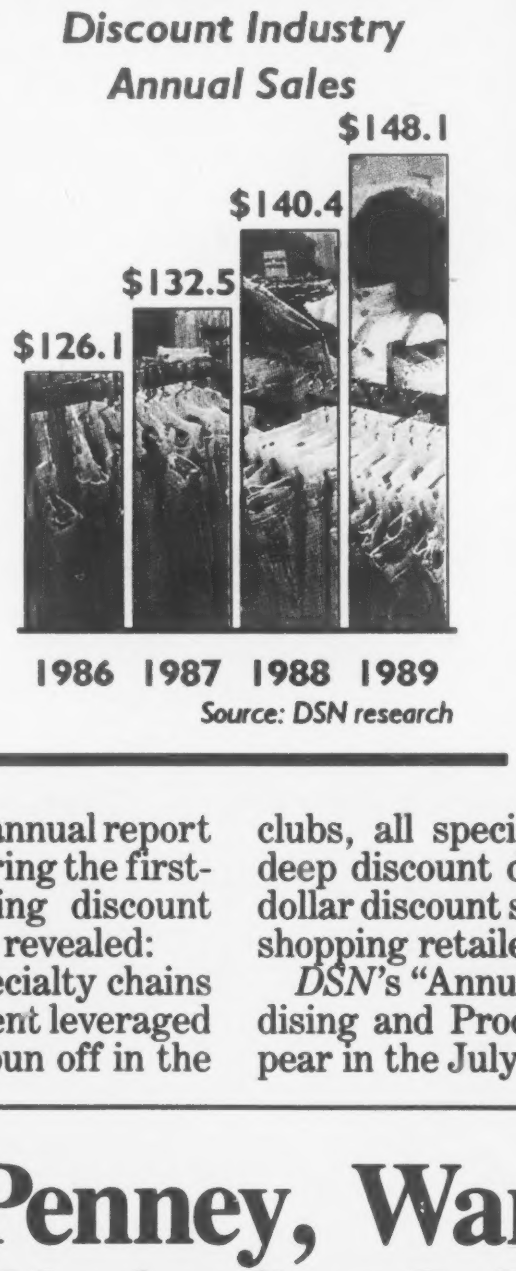
'89 Discount Sales to Top $148B

Top 150 Chains Record 14.2% Sales Increase in 1988

Nationwide DSN Report

The continued growth of the membership warehouse segment, surprising strength among the full-line discount department stores, a resurgence by the top catalog showrooms and sales increases from some new specialty concepts will push total discount retailing sales to $148.1 billion this year.

That represents a 5.5 percent increase over the $140.4 billion in sales generated by discount department stores, discount specialty chains, membership warehouse clubs, off-price apparel chains and catalog showroom operators in 1988.



Source: DSN research

Data collected by *DSN* in its annual report on the discount industry, featuring the first-ever listing of the 150 leading discount chains, (beginning on page 49) revealed:

- Thirty-four discount and specialty chains either changed hands, underwent leveraged buyouts, went public or got spun off in the past 18 months (page 53);
- K mart retained its throne as the nation's largest discounter, but Wal-Mart dominated nearly every measure of growth (pages 61 & 62);
- The nation's Top 150 discount retailers rang up $132.1 billion in sales last year, a 14.2 percent increase over the volume those chains generated in 1987 (pages 57 & 58);
- The industry's 53 largest full-line discount department store chains recorded $81 billion in sales, up 10.4 percent from 1987 (page 65).

In-depth reports on catalog showrooms, apparel off-pricers, membership clubs, all specialty chains, hypermarkets, deep discount drug stores, variety chains, dollar discount stores, closeouters and home shopping retailers begin on page 105.

DSN's "Annual Report Part II: Merchandising and Productivity Analysis" will appear in the July 17 issue.

Sam's Northeast Rollout Underway

Move May Trigger Warehouse War

By Arthur Markowitz

BENTONVILLE, Ark. — Sam's Wholesale Club plans to invade the Northeast with at least 18 stores during the next 30 months, an expansion move that has enormous implications for the membership warehouse field and its parent company, Wal-Mart.

Sam's is moving into the Northeast for the same reason other membership warehouses are expanding in the area: the 10-state region is a densely populated area with an average income higher than that of the country as a whole. It also has a strong, diversified economy that has weathered business swings better than other regions of the nation. Sam's first two stores are set to open this fall in Atlantic City and Delran Township, N.J.

Currently, the Northeast is understored with warehouse clubs. The region has only 26 wholesale clubs in eight states—less than the three dozen doing business just in Los Angeles alone. The indus-

(Continued on page 154)

PRICE CLUB FURNISHINGS
Price Club Furnishings store in Santee, Calif., sells high-end furniture and other home goods in warehouse format. (DSN photo)

The Sears, Penney, Ward Split

3 Major Mass Merchandisers Go Their Separate Ways

Nationwide DSN Report

The familiar Sears/Penney/Ward triumvirate crumbled last year.

At one time the three mass merchants were often referred to in the same breath as "Sears/Penney/Ward" or the "GM (general merchandise)" retailers. But that may have ended last June when Montgomery Ward adopted an everyday low price strategy and reformatted its stores to become a collection of power retailers.

Four months later, Sears announced that it was considering a similar strategy, and by December had developed and implemented two power "superstore" formats, in floor coverings and consumer electronics. Headlines around the country hailed the new "discount-look" Sears.

Then, in late January, the nation's largest retailer announced that it would reduce prices on 50,000 items in its stores and adopt, over the next two years, a brand-oriented approach to all departments storewide.

The price-cutting was quickly followed by the introduction of new superstore-within-a-store formats in children's products and men's apparel.

Meanwhile, Penney virtually dropped hard lines, most dramatically its CE department, and became, in essence, a soft lines department store.

Although none of the three has completed its overhaul, Ward's direction is clear enough that *DSN* has decided to add Montgomery Ward to the list of top American discount and discount specialty retailers.

(Continued on page 121)

New Price Co. Store Targets Home/Office Furnishing Biz

By Pamela Meek-Krein

SANTEE, Calif. — In its first diversification from its traditional membership warehouse club business, Price Co. has opened its first home and office furnishings showroom at a former club site here.

Opened June 17, Price Club Furnishings combines a high-end furniture store with the low-margin elements of the warehouse club format. The 48,000-square-foot site still has the warehouse interior with its high open ceilings and cement floors, yet the store has added dropped trak lighting and carpeting in the showroom area.

(Continued on page 154)

Value-Added Produc
Spotlighted at Summ

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Show
page 3

Sears' Men's Wear Has Brand Appeal
page 23

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MARKETWATCH

K mart Contributes to Minority Suppliers

TROY, Mich. — K mart has presented $500,000 to the National Minority Supplier Development Council, doubling the discounter's contribution to NMSDC's Business Consortium Fund (BCF) to $1 million. BCF helps suppliers with black, Hispanic or other minority ownership to obtain working capital loans. K mart chairman Joseph Antonini is chairman of NMSDC, which estimated that K mart's contributions have resulted in 1,100 new jobs in the minority community.

Price Club Canada to Open Two Units

MONTREAL — Price Club Canada will spend $23 million (Canadian) to open two 110,000-square-foot Club Price membership warehouses this fall in Ville d'Anjou and Laval as its fifth and six stores in Canada. Another four units are to be opened during the next three years by the company, which is partly owned by The Price Co.

Service to Sell The Computer Shoppe

NASHVILLE, Tenn. — Service Merchandise plans to sell for an undisclosed amount The Computer Shoppe, its 11-store computer chain, to Profit Computer Technologies as part of its move to focus on its core showroom business.

Carrefour Buys $41M of Office Depot Stock

PARIS — Carrefour, the publicly held French merchant and owner of a hypermarket in Philadelphia, has augmented its investment in United States retailing by signing an agreement to purchase 1.8 million shares of previously unissued Office Depot common stock for $41.4 million. The agreement restricts Carrefour's holdings in Office Depot to 25 percent of its stock but allows Carrefour to nominate one Office Depot director.

Parent Separates CVN from C.O.M.B.

MINNEAPOLIS — CVN Cos. has separated its direct marketing businesses into two distinct operating groups, one centered on its CVN cable teleshopping arm and the other its C.O.M.B. mail order closeout division. CVN accounted for almost 60 percent of the parent's $588 million in revenues last year, and the share is expected to grow this year.

NACSM Sponsors Seminar on Jewelry

NEW YORK — The National Association of Catalog Showroom Merchandisers will hold a jewelry seminar July 23 in the Jacob Javits Convention Center, meeting room 1E03, starting with a continental breakfast at 7:45 a.m. Panelists include John Baumgartner, Best Products; Barbara Kelley, K's Merchandise; Mike Kraft, W. Bell; Leonard Luria, L. Luria & Son; Alan Kaufman, Tru-Kay Manufacturing and Bill Kuhn, Citizen Watch Co. The seminar will be held during the annual Jewelry Show.

Glosser Bros. Obtains Line of Credit

JOHNSTOWN, Pa. — Glosser Bros., which is in Chapter 11 bankruptcy, has secured a $15 million revolving line of credit through May 31, 1990, from New York's Chemical Bank. Glosser said cash flow continues to be positive following the closing of several stores, so it doesn't expect to draw on the line of credit.

Crazy Eddie Files for Chapter 11 Protection

EDISON, N.J. — Crazy Eddie filed for Chapter 11 late in June. The company's 26 stores will remain open, as the retailer continues negotiations with major vendors to restructure its debts. A recent attempt by five creditors to force Crazy Eddie into involuntary bankruptcy played a major part in the retailer's decision.

Pic 'N' Save Eyes Consolidated Stores

COLUMBUS, Ohio — Pic 'N' Save, the nation's second largest closeout chain, approached Consolidated Stores, the nation's largest, about the possibility of buying Consolidated. But the talks came to naught, Consolidated said after the two companies were unable to agree on any terms of a possible acquisition.

FOR THE RECORD

In the May 8 issue of *DSN*, an article titled, "Newcomers Add Sizzle to Hot Market," implied that the Warehouse Club and American Wholesale Club had "failed miserably" in the Chicago market. The reference was to two locations operated in turn by the two companies, which both failed. The Warehouse Club operates several other locations in the Chicago market profitably and successfully.

Wal-Mart Switches to New Rx

McKesson Recaptures Pharmacy Account From FoxMeyer

BENTONVILLE, Ark. — Wal-Mart will switch drug distributors in August, reportedly to improve service to its pharmacy departments.

The switch comes at a time when the discounter has begun a chainwide roll out of pharmacies, at a rate of about 150 per year, according to a report in *DSN*'s sister publication, *Drug Store News*.

Wal-Mart pharmacies generated about 4 percent of the chain's sales or $825 million during 1988, based on corporate reports. Wal-Mart owned 780 pharmacy departments and leased 142 of these at the start of this year.

San Francisco-based McKesson Drugs recaptured the Wal-Mart account from FoxMeyer Drug Co., which had serviced Wal-Mart pharmacies the past four years. Prior to FoxMeyer, McKesson had handled the Wal-Mart account. There is strong disagreement between the firms concerning the factors that led to Wal-Mart's decision to return to McKesson.

FoxMeyer released a statement last month which said, "increasing emphasis on improving financial performance led to not having its contract renewed with Wal-Mart Stores." In the same statement, Robert King, FoxMeyer president and ceo said that his company, "submitted a pricing proposal similar to our current arrangement. However, this did not fit with Wal-Mart's pricing needs. Wal-Mart told us that service was not a factor . . ."

Fred Toney, senior vp, sales and marketing at McKesson, said, "We met their needs from a service standpoint . . . I'm sure they [FoxMeyer] would say it was price, but Wal-Mart would acknowledge it was the service."

In an interview with *Drug Store News*, Wal-Mart indicated that service frequency was the primary element in its decision, but Clarence Archer, vp, pharmacy, did not deny price was also a factor.

HQ Office Supply Goes to Canada

Steps Up Growth Plans; Founder Eyes Auto Parts Venture

By Pamela Meek-Krein

LONG BEACH, Calif. — HQ Office Supplies Warehouse founder Robert McNulty is taking his concept to Canada, becoming the first United States office supply chain to venture beyond the nation's borders.

Meanwhile, the early success here of McNulty's young office supply megastore has prompted a step-up in first-year store opening plans. Although initial projections called for the company to open 10 to 12 locations on the West Coast, HQ now expects to launch between 14 and 16 stores by the end of 1989.

In addition, *DSN* has learned that McNulty—whose track record includes the successful launch and sale to Zayre of the HomeClub home improvement chain and the founding of the ill-fated All American SportsClub sporting goods chain—is developing an auto parts warehouse concept called Auto Giant. Further details on the auto aftermarket retailer were unavailable at presstime.

The Canadian version of McNulty's office supply chain

(Continued on page 154)

STOR Settles IKEA Suit

CITY OF INDUSTRY, Calif. — After more than a year of legal battles, West Coast home furnishing retailer STOR has reached an out-of-court settlement with rival IKEA that requires only minor operational changes.

IKEA, the Scandanavian-owned home furnishings retailer which opened its first California store earlier this year, filed suit in the spring of '88 charging copyright infringement penalties against STOR and its catalog, which IKEA claimed was too similar to its catalog. Under the settlement, STOR doesn't have to pay any damages, opposing attorney fees, and its profits cannot be attached by IKEA.

The settlement comes at the same time STOR launched its third location—the first to open in a major regional mall setting. Located in the nation's largest indoor mall at Del Amo Fashion Center in Torrance, Calif., the STOR site is decidedly more upscale than the chain's first two locations.

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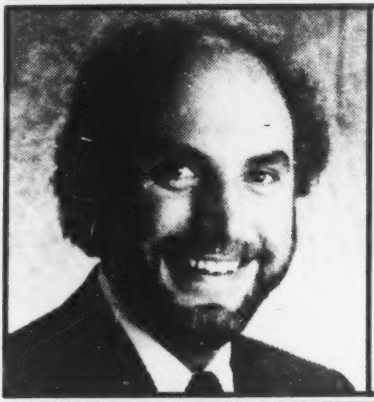
EDITORIAL

DSN Plans Special Tribute to Wal-Mart

Have you heard the latest Sam Walton story?

About two weeks ago, Walton was visiting a store in the Florida Panhandle, coincidently in Fort Walton Beach, when electrical problems shut down the cash registers. And wouldn't you know it, but there was Walton with a note pad writing the prices of merchandise so the cashiers could process their orders. He greeted everyone, shook hands, and reportedly kept customers from getting upset during the hour the registers were inoperable.

There are hundreds of similar stories about Mr. Sam and everyone has a personal favorite. But this latest escapade is a reminder of the hands-on style Walton has made famous. It also is a reminder of the cornerstone of success that Wal-Mart has enjoyed.



TONY LISANTI
Editor

Three months ago I wrote: "Sam Walton has made every employee a part of the company. Sam has never lost touch with his employees or his customers. Sam makes his actions speak louder than words. And above all, Sam has never let the entrepreneurial spirit die."

Two years ago I wrote the following in conjunction with our 1987 annual report: "I could sum up the year in discounting in one word—Wal-Mart! Regardless of how you analyze the data, everything comes up Wal-Mart."

The same is true in 1989. In fact, the same point could be made for every year since 1980. And there appears to be no end in sight to the Wal-Mart phenomenon. Based on sales projections, Wal-Mart could become the nation's No. 1 discounter in 1990.

Consider these facts of growth at Wal-Mart since 1980:

- Total discount stores sales increased from $1.6 billion in 1980 to $16.8 billion in 1988.
- Net income increased from $55.7 million in 1980 to $837 million in 1988, topping K mart's $803 million.
- Its store count increased from 330 in 1980 to 1,259 in 1988.
- Sam's Wholesale Club didn't even exist in 1980. The first unit opened in 1983 with sales of about $40 million. In 1988, sales hit $3.8 billion from 105 clubs.
- Hypermart USA and Wal-Mart SuperCenters provide Wal-Mart with two new concepts (incorporating food sales) that each could be generating over $1 billion in sales by 1992.

I could go on and on with similar statistics and comparisons, but clearly Wal-Mart has dominated discount retailing through the 1980s and will continue to be dominant through the 1990s.

To recognize Walton and all of the discount retailer's associates for their astounding accomplishments, *Discount Store News* has named Wal-Mart Retailer of the Decade. In the tradition of *DSN* and the discount industry, this unprecedented award is the highest honor ever bestowed upon a retailer.

As the prosperous decade of the '80s comes to an end, it is a fitting tribute that *DSN* dedicate its entire December issue to Wal-Mart, the Retailer of the Decade. It will be a review of the growth and accomplishments of the most exciting and elusive retailer. It will be the most comprehensive analysis of Wal-Mart ever published.

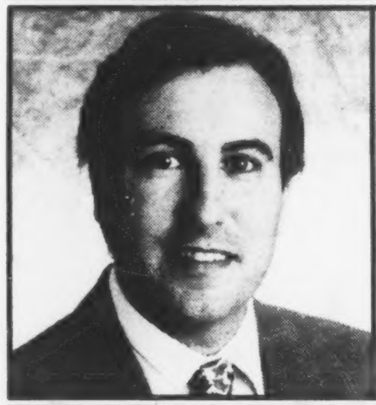
On behalf of *Discount Store News*, let me be the first of thousands of retailers, suppliers, and friends to officially say to Sam, Dave Glass, and every one of the more than 225,000 Wal-Mart associates: "Congratulations!" And remember what Sam said during an annual meeting two years ago remarking about fiscal 1989 sales projections, "I know one thing. We've only just begun."

BUYERS & SELLERS

Hundreds of Discounters Offer Opportunities

One of the more common complaints I hear from manufacturers who supply the discount industry is that there are fewer and fewer retail customers for them to supply.

After hearing some of them talk, you'd think that the retail industry was composed of just K mart, Wal-Mart, Target, and a handful of "mom and pop" stores. What hogwash!



DON LONGO
Exec Editor

There's no denying that a disproportionately large share of business is in the hands of a select few: The top 10 chains, with nearly $72 billion in sales, accounted for about half the industry's total volume last year. But, as this special Annual Report on Discount Retailing (beginning on page 49) dramatically shows, there were at least 200 discount retailers doing significant volume last year. Besides the top 10 companies that racked up $3 billion or more in sales last year, there were 26 with at least $1 billion in '88 sales; 48 that did $500 million or more; 77 did $250 million; and 120 discount retailers generated a minimum of $100 million in sales. Hardly "mom and pop" operations.

This year, the *DSN* editorial staff put together the first-ever listing of the top 150 discount chains, including full-line discount department stores (still the largest segment), off-price apparel chains, consumer electronics chains, catalog showrooms, auto aftermarket specialty chains, membership warehouse clubs, sporting goods specialty chains, toy specialty chains, dollar discount chains, closeout chains, hypermarkets and office supply megastores. These top 150 chains sold more than $132 billion worth of merchandise last year, a 14 percent increase over 1987.

So, while many manufacturers will bemoan the fact that they can't get an appointment with the K mart buyer, or that Wal-Mart is making unrealistic demands on them, or some other difficulty in dealing with one of the "giants," smart suppliers will target the large group of middle-sized chains that offer new opportunities, especially for the middle-sized vendor.

IMRA PRESIDENT'S CORNER

Retailers Can Profit from Consumer Survey

At IMRA's annual convention last May, the attendees were treated to one of the best studies on consumer shopping preferences in many years.

Ambassador Cards prepared and presented a study on "Retailing Excellence: The Customer's Perspective" to review why customers shop in discount stores (see story, page 46). The objective was "to identify ways in which mass retailers . . . could become more competitive against other channels of distribution." This is certainly one of the key aspects to future success in the mass retailing field. This industry is littered with companies who ignore their competition or who ignore their key customer base.

RICHARD HERSH

The summary of findings also lends itself to the above conclusion. As stated in the study: "the research suggests clearly that retailing excellence means the ability to successfully build and strengthen your relationship with the consumer. This involves a process of expanding and fulfilling promises."

The study deals with fifteen categories of merchandise so that it is broad enough to be able to use it as a cross-section the merchandise assortment in discount stores today.

We are pleased that Bob Firnhaber, president of Ambassador Cards, and Bill Marter, vice president, were willing to put their valuable time and money behind such an important study for the industry. The risks inherent in such a study are well-known and we greatly appreciate their support in this endeavor.

As the study concludes: "In this increasingly competitive environment, it is important to focus on strategies that will help you become the preferred shopping alternative in the market. The findings . . . clearly suggest that store loyalty can be achieved by investing time and resources into building and strengthening a lasting relationship with your customers."

Very clearly words to live by!

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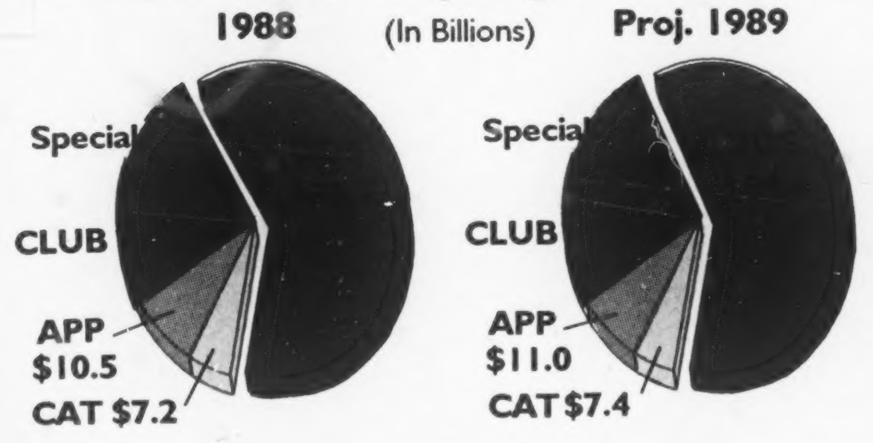
Discount Store News

ANNUAL REPORT

1988

The Most Comprehensive Report On All Segments of Discount Retailing

Discount Industry Segment Sales



CAT: Catalog Showrooms **DDS:** Full-Line Discount Department Stores
APP: Off-Price Apparel Chains **CLUB:** Membership Warehouse Clubs
Specialty Discounters: toy chains, CE chains, sporting goods chains, automotive aftermarket chains, office supply megastores, and others.

Source: DSN research

American FARE 500

10 Discounters Comprise Three Billion Dollar Club

Just when you thought being a member of the Billion Dollar Club was the height of exclusivity, along comes the Three Billion Dollar Club.

Belonging to the 26-member Billion Dollar Club is still nice, but landing in *DSN*'s 1988 Three Billion Dollar Club—which means being one of the nation's top 10 sales volume discounters—is now the ultimate status symbol.

The top 10 discount store chains racked up a 16.2 percent sales gain last year, proving once again that the big just keep getting bigger. For the first time since the compilation of *DSN*'s top chains chart, the No. 10 chain hit the $3 billion sales mark. Meijer was the chain to hit the magic $3 billion mark for 1988 sales, while the No. 10 chain last year, Ames, posted a mere $2.1 billion in 1987 sales.

For the top 150 chains as a whole, sales rose an average of 14.2 percent.

The top 10 chains also expanded in store count at a greater rate than the entire 150 chains—12.4 percent compared to 10.1 percent.

The only chain to drop out of the top 10 was Zayre Corp., which sold its discount store division to Ames. The new addition to the top 10—and to the list as a whole—is Montgomery Ward. However, even if Ward had not been included, Zayre would have plummeted to 10th place from its 1987 fourth place slot. Of course, with Zayre changing its name to TJX Cos. this month, that venerable name will not appear on next year's Top 150 list of discounters.

Within the top 10, the biggest upward mover was Sam's Wholesale Club, shooting up to 6th on the list from 1987's No. 9 ranking.

Even with the addition of Zayre's discount store division's fourth quarter sales, which produced a 59 percent sales increase, Ames only managed a two-place rise to the eighth slot. That still leaves the Rocky Hill, Conn.-based discounter behind not just the new "big four" full-liners—K mart, Wal-Mart, Target and Montgomery Ward—but also trailing Price Club, Sam's and toy specialty chain Toys "R" Us. Service and Meijer round out the top 10.

For the first time a 26th chain has joined the Billion Dollar Club—Western Auto, which increased its sales nearly 19 percent last year.

From among the top 25, three chains dropped as many as three places in the rankings—Hills, from 15 to 18; Caldor, from 16 to 19; and Rose's, from 19 to 22. The only two-place rise up the top ranking came from Costco, going from 17 to 15.

Going down the list to include the top 100, the biggest ranking gainers were: Whitlock (a 73 percent sales jump), up 21 notches to 74th place on the list; Price Savers (estimated 100 percent sales increase last year), a 16-slot surge from 60th to 44th; Kids "R" Us (estimated 42 percent gain), a 14-place jump from 70th to 56th; Nationwise (38 percent sales increase), up 12 places to No. 72; Northern Automotive (56 percent rise), a 10-place promotion to 37th from 47th; Bi-Mart (25 percent sales gain), also up 10 notches to 64th, and BJ's Wholesale Club (sales up 39 percent), a gain of eight

(Continued on page 54)

Middle-Tier Chains Struggle As Profits Come Under Fire

A spate of liquidations, Chapter 11 bankruptcy filings and store closings—along with declining operating profits—underscores the troubled times that many small- to medium-size regional discount chains are encountering this year.

Mars Stores, North Dighton, Mass., became the latest full-line discounter to liquidate, following a loss of $8.4 million on 1988 sales of $79.8 million. It announced plans last month to liquidate its eight remaining stores, down from 18 in 1987. It had declared Chapter 11 March 1.

In specialty chain liquidations, a debtor in possession of OTASCO, Tulsa, Okla., ordered the liquidation of the 70-year-old home and auto chain in May. OTASCO, with sales of $275 million in 1987 from 221 stores, filed Chapter 11 bankruptcy last November and closed all its stores because it couldn't finance Christmas inventory. The debtor in possession reopened 63 stores this spring, but then quit for good.

In sporting goods, a bankruptcy trustee ordered in March the liquidation of All American SportsClub, Los Angeles, which pioneered the sporting goods membership warehouse club concept. Once boasting eight units, SportsClub, under founder Robert McNulty—who previously founded HomeClub and recently launched HQ Office Supplies Warehouse—was down to just four at the end.

And a consumer electronics chain, the Federated Group, Sunnyvale, Calif., is being treated as a discontinued operation. Its parent company, Atari Corp., is "exploring several options" about selling or spinning off the chain, including a leveraged buyout. Sales plunged to an estimated $253 million in 1988 from $437 million in 1987—the year Atari acquired it.

Crazy Eddie, Edison, N.J., another CE chain, is fighting for survival as five creditors attempt to force it into involuntary Chapter 7 bankruptcy. Prior to the liquidation attempt, filed last month in bankruptcy court, Crazy Eddie had closed 17 of its 43 stores in efforts to survive.

The beleaguered chain was forced to file for Chapter 11 protection from creditors late last month, but promised to keep its stores open as it tries to reorganize.

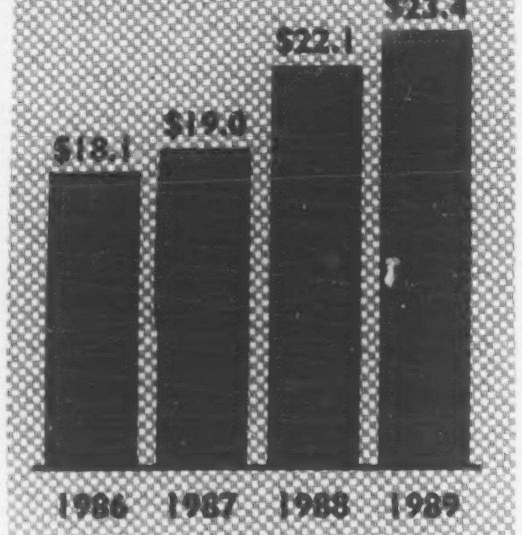
Among others striving to remain in business by filing for Chapter 11 protection, Duckwall-ALCO, Abilene, Kan., took that step in May, closing 51 of its 150 stores. The chain blamed bankruptcy on the heavy debt load stemming from a leveraged buyout four years ago, competition from Wal-Mart, and poor rural economies in its markets.

LBO debt service also helped shove Glosser Bros., Johnstown, Pa, into declaring Chapter 11 in March. Glosser immediately closed one of its 23 Gee Bee full-line stores and then closed two more, along with eight stores of its 45-unit Dollar Bargain closeout chain and its flagship department store in Johnstown. Its store count now stands at 20 Gee Bees and 37 Dollar Bargains.

And Maxway, Sanford,

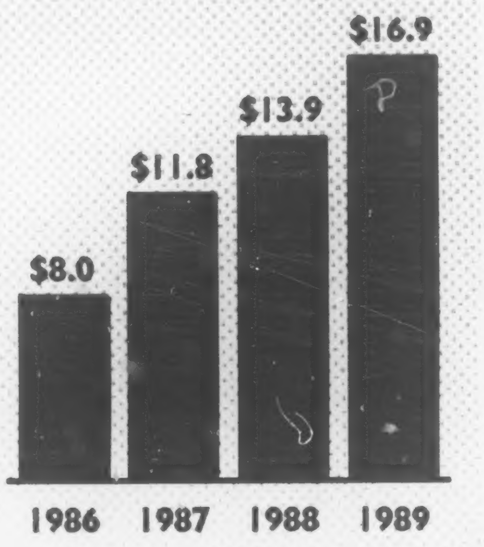
(Continued on page 54)

Specialty Discounters



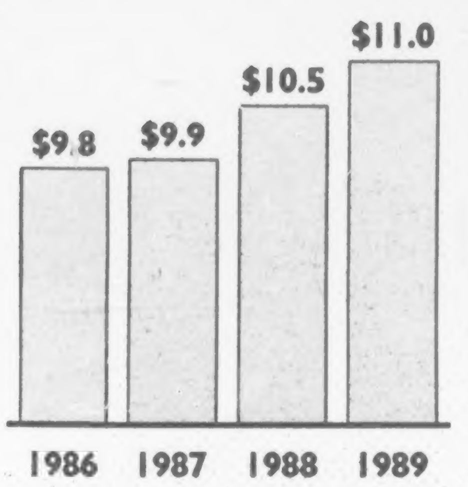
Specialty mass retailers will see their rapid sales growth of recent years slow somewhat as several categories reach a more mature state. Sales at toy, consumer electronics, sporting goods, auto parts, office supply and other specialty discount chains will hit $23.4 billion in 1989, a 5.9 percent increase. That's a slackening in the 16.3 percent gain these retailers achieved in 1988. ***Specialty segment profiles begin page 110.***

Membership Clubs



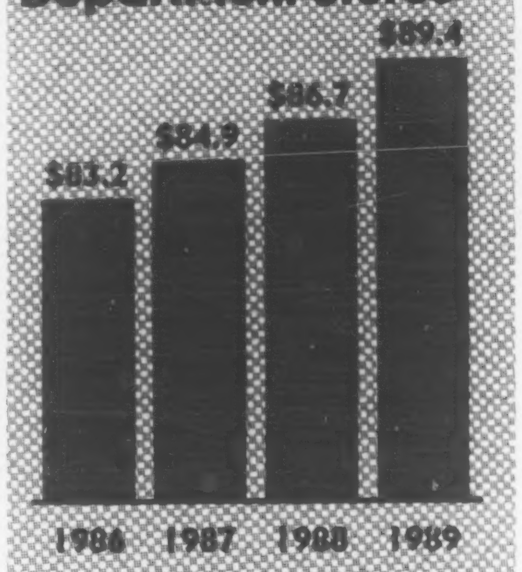
By far the fastest-growing discount segment, the membership warehouse clubs' sales grew by 17.8 percent last year, and are projected to increase another 21.6 percent in 1989. Those figures may even be conservative in view of the aggressive store opening plans of Sam's, Price Club, Costco, Makro, The Wholesale Club and Club Wholesale.
See story, page 108.

Apparel Off-Pricers



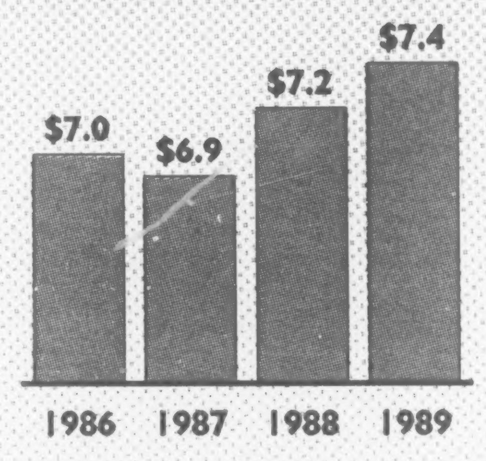
After a solid 6.1 percent sales gain in 1988, off-price apparel chains are expected to notch a 4.8 percent gain in 1989. The leading 15 off-pricers, which accounted for nearly 65 percent of the segment's sales, will grab an even larger share of the off-price sales pie this year.
See story, page 106.

Full-Line Discount Department Stores



Full-line discount department store sales will climb 3.1 percent this year to 89.4 billion. In 1988, full-liner sales hit $86.7 billion, a 2.1 percent increase over 1987. Sales increases among the larger chains outpaced the total segment. The top 53 full-line discount store chains racked up a 10 percent sales gain, and volume at some of the industry giants rose at an even faster clip. ***See story, page 65.***

Catalog Showrooms



Catalog showroom chains will continue the rebound started last year, spurred by both the sustained growth of industry leader Service Merchandise and strong performances by several regional companies. Catalogers' sales this year are expected to reach $7.4 billion, a 2.8 percent gain.
See story, page 105.

Annual Report Methodology

This year, for the first time, *Discount Store News'* "Annual Report 1988: Part I" on the discount industry includes information on the top 150 discount chains in the nation. It also contains profiles on the leading variety store chains, closeouters, general merchants and dollar discount chains, in addition to the usual annual reports on full-line discount department stores, catalog showrooms, apparel off-pricers, membership warehouse clubs, hypermarkets, electronic and home shopping services,and the following specialty chain segments: auto parts, toys, sporting goods, consumer electronics, office supply megastores, and deep discount drug chains.

DSN's exclusive Top 150 list was compiled from company annual reports, filings with the Securities and Exchange Commission and phone calls to more than 200 of the nation's leading discount retailers.

In nearly all cases, sales figures represent total store volume, including general merchandise, apparel and groceries; sales and store counts represent individual divisions (e.g., K mart discount stores only), and earnings represent operating income or profit/loss from continuing operations, before income taxes and extraordinary items.

"Annual Report: Part II—Merchandising and Productivity Analysis" will be featured in the July 17 issue of *DSN*. This issue will contain a review of discount department store volume, turns and margins in several product categories, specialty chains and catalog showrooms' share of sales, discount store penetration by state, productivity rankings of the top discounters, and profiles of the largest discount department stores.

Climate Ripe for More M&A Activity

In the first half of 1989, the pace of retail mergers, acquisitions and leveraged buyouts slowed from last year's torrid rate.

But the competitive and cost forces that propelled restructuring last year still are pressuring retailers, while plenty of money remains available to finance deals. Accordingly, merger specialists expect retail mergers and acquisitions to pick up during the last half of 1989, following a slow start.

As the accompanying chart shows, 34 discount and specialty chains either changed hands, underwent leveraged buyouts, went public or got spun off from January 1988 through July 1989. That compares with a total of 20 during the 18 month period from January 1987 to June 1988.

127 Chains Affected in 1988

During 1988, 127 retail chains changed hands, including five discount and variety store chains, Merrill Lynch reported in its Mergerstat Review for the year. Over the past five years, 690 retail chains were either merged or acquired, ranking third in volume after banking and finance and miscellaneous services.

Dollar volume of the 1988 deals was $23.86 billion, Mergerstat reported.

In discounting, Ames' acquisition of the Zayre Stores division of Zayre Corp. last October for some $800 million ranks as the second-largest acquisition of the 18 months. With 1989 consolidated sales expected to exceed $5 billion, Ames becomes the fourth-largest full-line discounter—hard on the heels of Target.

As of June 20, Zayre Corp., was no more, having spun off its BJ's Wholesale Club and HomeClub divisions into a new corporation, Waban, Inc., and renamed itself TJX Cos. The company now specializes in off-price apparel retailing with its T.J. Maxx and Hit or Miss chains and its Chadwick's of Boston catalog operation.

Wall Street initially placed a value of $508 million for the newly issued stock of Waban.

The largest acquisition was the $1.1 billion purchase of Best Products, a cataloger, by Adler & Shaykin, a York, Pa., investment group.

Other full-line discounters to change hands were Harts, Columbus, Ohio, bought by Penn Traffic in a $350 million acquisition of its parent, Big Bear, and Bi-Mart, Eugene, Ore., acquired by Thrifty Corp., Los Angeles, in a $232 million purchase of its drug chain parent, Pay 'n Save.

The $3.8 billion, management-led LBO of Montgomery Ward from Mobil Oil easily ranked as the largest deal.

Another billion dollar deal involved the management-led LBO of Bradlees parent, Stop & Shop Cos. Following the LBO, management sold 35 Bradlees in its Southern division in order to pay down debt.

Acquisition wheeling and dealing also resulted in the demise of the Gold Circle chain last year. After Campeau Corp. bought Gold Circle's parent, Federated Stores, Campeau sold its 76 stores for some $325 million to a real estate concern.

The operator then resold 35 stores to Hills, 31 to Target and two to K mart. The deal gave Target a chance to make a swift entry into a new market, the Southeast, and move a step closer to becoming a national chain—as well as keep a jump ahead of Ames-Zayre.

Several specialty chains are on the block.

In consumer electronics, Newmark & Lewis announced last month that it's for sale.

And, Atari Corp., which bought the Federated Group just two years ago, began treating the CE subsidiary as a discontinued operation at the end of its fiscal year this January. Atari said it is considering its options of either finding a buyer or entertaining a management LBO.

Tuesday Morning, a closeout chain, hired an investment banker in June 1988 to find a buyer, but so far, no takers.

In automotives, several chains are for sale, including Steego Auto parts.

In sporting goods, the future of the industry's largest chain, Herman's, is in jeopardy because its British parent, Gateway Corp. (formerly Dee Corp.), is the target of a hostile takeover attempt.

"It's no secret" that two concerns are vying to take over Dee Corp. [Gateway], a Herman's executive said.

One of the more unusual acquisitions last year involved the purchase in December of an off-price apparel chain, The Children's Place, by the Dabah family that controls an apparel vendor, Gitano. The Dabah family bought the 162-unit children's apparel chain, also a Federated unit, from Campeau for about $30 million.

In turn, Gitano took a five-year option to buy the chain in its own name.

Foreign interest in U.S. discounting increased modestly last year with the acquisition in July 1988 of Loehmann's, an off-price apparel chain, from May Department Stores through a leveraged buyout. Sefinco Ltd., a Madrid, Spain-based investment subsidiary of Entrecanales y Tavora S.A., led the LBO.

In addition, Ward White PLC, London, bought the R&S Strauss automotives chain to build on its previous automotive acquisitions, Whitlock and Rose Auto.

Other foreign acquisitions over the past 18 months include the purchase of Consumer Distributing catalog showroom chain by International Semi-Tech (Far East), a Hong Kong-based subsidiary of a Canadian concern. Another Canadian company, Dylex Ltd., became in June 1988 the sole owner of NBO, the men's off-price apparel chain, by buying the remaining 50 percent interest.

Office products specialty chains accounted for all four initial public offerings among discounters. Staples, the industry pioneer, went public this April, raising almost $62 million. Office Depot led the parade in June 1988 with a $21 million offering.

HQ Office Supplies Warehouse, a new venture of Robert McNulty, founder of the HomeClub chain that he sold to Zayre, raised $7 million from the public last October before he opened the first store.

Office Club went public last December, raising $14 million for expansion.

Chain Restructurings Since January 1988

Acquisitions:

Acquiring Chain	Acquired Chain	Price (In Millions)	Number of Stores	Date
Northern Automotive	Auto Works U-Save Auto Parts Crown Auto	$ 33 NA 8	252 8 57	January 1988 February 1988 March 1988
F.W. Woolworth	Robby's Sporting Goods	NA	46	February 1988
Nationwise	Guarantee Auto	11	75	February 1988
K mart Corp.[1]	Makro	NA	4	March 1988
Sears, Roebuck & Co.	Western Auto	402	394	April 1988
International Semi-Tech (Far East)	Consumers Distributing (U.S.)	100	85	May 1988
Thrifty Corp.[2]	Cook's Casey's Pay 'n Save Brown's	NA NA 232 NA	21 12 148 19	March 1988 March 1988 June 1988 November 1988
Dylex Ltd.[3]	NBO	86	28	June 1988
PACCAR Inc.	Grand Auto	49	107	June 1988
Riklis Family Corp.	Odd Lot Trading	37	103	October 1988
Adler & Shaykin	Best Products	1,100	194	October 1988
Ames Dept. Stores	Zayre Stores	800	388	October 1988
Ward White PLC	R&S Strauss	35	72	October 1988
H.C. Prange Co.[4]	Schultz Family Stores	NA	7	December 1988
Dabah Family[5]	The Children's Place	30	162	December 1988
Pic 'N' Save	Job Lot Trading	NA	15	December 1988
Penn Traffic[6]	Big Bear	350	98	March 1989

[1] K mart acquired a 51 percent controlling interest in Makro.

[2] Thrifty's acquisition of Pay 'n Save included 37 Bi-Mart discount stores and 111 Pay 'n Save drug stores. Brown's, Cook's and Casey's are sporting goods chains.

[3] Dylex Ltd. bought remaining 50 percent interest of NBO to complete acquisition.

[4] H.C. Prange converted all Schultz units to Prange Way stores.

[5] The Dabah family's acquisition of The Children's Place included the 41-unit The Accessory Place.

[6] Penn Traffic's acquisition of Big Bear included 31 Harts department stores, four Big Bear Plus hypermarkets and 63 Big Bear supermarkets.

Leveraged Buyouts, Initial Public Offerings, Spin-Offs:

Chain	Action	Price (In Millions)	Number of Stores	Date
Stop & Shop Cos.[1]	Management LBO	$1,192	282	March 1988
Chief Auto	Management LBO	130	475	April 1988
Jewelcor	Managment LBO	62	18	May 1988
Office Depot	Went Public	21	12	June 1988
Filene's Basement	Management LBO	NA	22	June 1988
Loehmann's	Investor-led LBO	170	77	July 1988
Montgomery Ward	Management LBO	3,800	323	August 1988
HQ Office Supplies Warehouse[2]	Went Public	7	0	October 1988
Office Club	Went Public	14	11	December 1988
Staples	Went Public	62	23	April 1989
Price Savers	Management LBO	NA	13	May 1989
Zayre Corp.[3]	Spun off BJ's Wholesale Club, HomeClub as Waban Inc.	508	71	June 1989

[1] Bradlees parent Stop & Shop Cos. includes 169 Bradlees and 113 Stop & Shop supermarkets. Stop & Shop sold 35 Bradlees stores to pay down LBO debt.

[2] HQ Office Supplies operated no stores when the company went public; it now runs five stores.

[3] Zayre Corp. changed its name in June 1989 to TJX Cos. and now operates only T.J. Maxx, Hit or Miss and Chadwick's of Boston. The value of the spin-off transaction was based on 28.3 million shares issued at first day trading price of $18 per share. Waban includes 22 BJ's Wholesale Clubs and 49 HomeClub home center warehouse clubs.

NA—not available

Source: *DSN research*

Middle-Tier Discounters Struggle As Competition Squeezes Profits

(Continued from page 51)

N.C., has closed 22 of the 72 stores it was operating when it filed for Chapter 11 protection last October and plans to close six more for a new count of 44. It started 1988 with 89 units.

Heck's, Nitro, W.Va., expects to emerge from Chapter 11 bankruptcy in August now that a bankruptcy judge has approved its reorganization plan. But Heck's would emerge as a shadow of its former self, with 55 units, compared to a 1986 high of 168. And creditors would own 90 percent of the retailer. Moreover, it still must obtain an $8 million line of credit and liquidate its Maloney subsidiary.

Heck's reported a net loss of $44.9 million in the year ended Feb. 25, 1989, compared to a net loss of $27.7 million the previous year.

Other retailers, including S.E. Nichols, New York, are closing stores in efforts to restore profitability. Nichols announced plans to close at least eight money-losing stores and possibly three more, which would reduce store count to 30 from a 1987 high of 46. In addition, it sold its profitable Schreiber wholesale division to help improve cash flow.

Nichols posted a $3.5 million net loss on sales of $273.9 million in 1988 on top of a net loss of $1.9 million and sales of $301.8 million in 1987.

TSS (formerly TSS-Seedman's), Brooklyn, N.Y., also has downsized to 12 full-line stores and two home and auto stores by selling its six-store Puerto Rican division and closing two home and auto stores. It also is leasing excess space in its larger stores.

The example of Bradlees' store closings shows that it can be beneficial. After its parent, Stop & Shop Cos., went private last spring in a $1.2 billion leveraged buyout, its parent sold 35 Bradlees units in its Southern division to pay down LBO debt.

Subsequently, operating profits for the 131 remaining stores spurted 49 percent to $84.9 million in 1988 from $57 million in 1987. Operating profits had been sliding. Sales of $2.1 billion last year were essentially flat from 1987.

Despite operating profits for both Bradlees and its supermarket chain, the parent company, SSC Holdings Corp., posted a $21.5 million net loss in 1988, largely due to increased interest costs from the LBO.

In another indication of stress for regional chains, Caldor, Norwalk, Conn., Rose's Stores, Henderson, N.C., and Jamesway, Secaucus, N.J., all experienced declining operating income on higher sales in the past two to four years.

Based on results for the year to date, Caldor, however, anticipates that its four-year slide in operating profits has ended and expects to report an increase for 1989.

Many regionals do seem to be thriving, including ShopKo, Green Bay, Wis., Fred Meyer, Portland, Ore., and Meijer, Grand Rapids, Mich. Moreover, chains do manage to emerge from Chapter 11 and stay in business.

American Wholesale Club, Richardson, Texas, for example, closed two of four membership clubs before declaring Chapter 11 bankruptcy last July. It then closed a Dallas unit, but it emerged last December with a new investor and plans to add another unit.

Toy King, Orlando, Fla., also emerged from Chapter 11 in May after 10 months. Of 44 stores, 20 remain open, and it plans to add five new stores by year-end.

The Top 150: Academy to Zayre

Chain	1988 Rank	Chain	1988 Rank
Academy	124	Luskins	111
ALCO	60	L. Luria & Son	85
Alexander's	47	Makro	67
American TV	81	Mars	129
Ames	8	Marshalls	16
Ann & Hope	71	Maxway	141
Apex	142	Meijer	10
Arvey Paper	115	Modell's	135
Audio-Video Affiliates	88	Montgomery Ward	4
AutoZone	49	Nationwise	72
Bargain Town	143	NBO Stores	121
Best Buy	48	Newmark & Lewis	80
Best Products	13	Northern Automotive	37
Bigg's	102	Odd Job Trading	138
Bill's Dollar Stores	89	Office Club	146
Bi-Mart	64	Office Depot	109
BJ's Wholesale Club	30	One Price Clothing	139
Bradlees	12	Oshman's	62
Brendles	73	PACCAR	90
Brick Church	116	PACE	25
Building #19	127	Pamida	45
Burlington Coat	40	Pay Less NW	21
Buyer's Club	117	Pep Boys	38
Caldor	19	Pic 'N' Save	53
Carrefour	140	Prange Way	99
Chaffin	108	Price Club	5
Champs Sports	122	Price Savers	44
Chief Auto Parts	61	Quality Stores	96
Child World	29	Rich's	84
Circuit City	17	Rose's	22
Click	93	Ross Stores	42
Clothestime	95	Sam's	6
Clover	58	Service Merchandise	9
Club Wholesale	136	ShopKo	24
Consolidated Stores	43	Silo	28
Consumers Distributing	65	Sky City	105
Costco	15	Smitty's	39
Crazy Eddie	75	Sportmart	98
Dahlkemper's	128	Staples	112
David Weis	110	Stein Mart	114
Dollar General	46	Sterling Jewelry	132
Dress Barn	86	Stuarts	106
Evans	134	Super City	119
E.H. Tepe	150	Swallen's	100
Family Dollar	34	Syms	68
Fedco	36	S&K Famous Brands	145
Filene's Basement	66	S.E. Nichols	70
Fishers Big Wheel	51	Target	3
Fred Meyer	14	The Andersons	120
Fred Schmid	118	The Fair Company	125
Fretter	83	The Federated Group	76
Gee Bee	94	The Good Guys	103
Goldblatt	148	The Present Co.	131
Grandpa Pidgeon's	104	The Wholesale Club	54
Greenman Bros.	92	The Wiz	82
G.I. Joe's	113	Thrifty Corp.	41
Harts	87	Tops Appliances	59
Heck's	63	Toys "R" Us	7
Herman's	35	Trader Horn	107
Highland Superstores	27	Trak Auto	79
Hills	18	TSS	77
Hit or Miss	55	Tuesday Morning	126
Hypermart USA	69	T.J. Maxx	20
Jamesway	31	Value City	50
Jewelcor	149	Van Leunen's	133
K mart	1	Venture	23
K & K Toys	137	Wall to Wall Sound	101
Kay-Bee	32	Wal-Mart	2
Kids "R" Us	56	Warehouse Club	78
Kingsway	147	Western Auto	26
K's Merchandise	97	Whitlock	74
Laneco	123	Witmark	144
Lechmere	33	W. Bell	130
Lionel Leisure	52	Yellow Front	91
Loehmann's	57	Zayre	11

Source: DSN *research*

Who Owns Whom

K mart Corp.
- K mart
- Pay Less NW
- Waldenbooks
- Bargain Harolds
- Makro
- American Fare
- Builders Square
  - Office Square
  - Sports Giant

Wal-Mart Stores
- Wal-Mart
- Sam's Wholesale Club
- Hypermarket USA
- dot Drug

Dayton Hudson
- Target
- Lechmere

Toys "R" Us
- Toys "R" Us
- Kids "R" Us

Ames
- Ames
- Zayre
- Office Shop Warehouse
- Crafts & More

SSC Holdings
- Bradlees

Adler & Shaykin
- Best Products

Melville Corp.
- Marshalls
- Meldisco
- CVS
- Freddy's
- Kay-Bee Toys
- Linens 'n Things

May Department Stores
- Caldor
- Venture

TJX Cos.
- T.J. Maxx
- Hit or Miss
- Chadwick's of Boston

Riklis Family Corp.
- McCrory Stores
  - Bargain Time
  - Odd Lot Trading

Super Valu
- Shopko
- Twin Valu

Sears, Roebuck & Co.
- Western Auto

Waban Inc.
- BJ's Wholesale Club

Gateway Corp.
- Herman's
- Sunset Sports

Trump Group
- Northern Automotive
  - Auto Works
  - Checker
  - Crown
  - Kragen
  - Schuck's

Thrifty Corp.
- Bi-Mart
- Pay 'n Save
- Big 5 Sporting Goods
- Brown's
- Casey's
- Dave Cook Sports
- Gart Bros. Sporting Goods
- MC Sporting Goods

Steinberg Inc.
- Smitty's

Schottenstein Stores
- Value City
- Valley Fair

Pic 'N' Save
- Job Lot Trading

Lionel Leisure
- Kiddie City
- PlayWorld
- Toy Warehouses

Strawbridge & Clothier
- Clover

International Semi-Tech (Far East)
  - Consumers Distributing (U.S.)

Nationwise
- Guarantee Auto

Sefinco Ltd.
- Loehmann's

Ward White PLC
- Whitlock Auto
  - R&S Strauss
  - Rose Auto

Entertainment Marketing
- Crazy Eddie

Atari
- The Federated Group

Pritzker Family
- TSS
- Finders Keepers

Dart Group
- Trak Auto
- Crown Books

Penn Traffic
- Harts
  - Big Bear Plus

PACCAR Inc.
- Grand Auto
- Al's Auto Parts

Greenman Bros.
- Circus World Toy Stores

Fred W. Albrecht
- Click

H.C. Prange
- Prange Way

Euromarché
- Biggs

Interco Inc.
- Sky City

Dylex Limited
- NBO Stores

F.W. Woolworth
- Champs Sports

Wetterau
- Laneco

Carrefour PLC
- Carrefour USA

Kindercare
- Bargain Town USA
- Simply Six
- Max 10
- Shoe City

Dabah Family Holding
- Children's Place

Dixons, PLC
- Silo

Wisconsin Toys
- Toy Liquidators
- Toys Unlimited

Auchan Group
- Auchan

Source: DSN *research*

Sales Climb 16.2% at Top 10 Discounters

(Continued from page 51)

places to 30th from 38th.

The big ranking losers include: The Federated Group (a 42 percent sales decline), off 30 notches to 76th on the list; Crazy Eddie (20 percent sales fall off), dropping 18 places to 75th; Heck's (27 percent drop), off 15 notches to No. 63; Fretter (8 percent sales decline), off 14 notches to No. 83; S.E. Nichols (9 percent decline), down 11 places to 70th; Dollar General (sales off 3.7 percent), down 10 places to 46th; Clothestime (4.5 percent sales decrease), also off 10 places to 95th, and Audio-Video Affiliates (off 8 percent in sales), also dropping 10 notches to No. 88.

Completing the top 150, double-digit ranking gainers were: Office Depot (288 percent sales rise), up 37 notches to place 109th on the list; Staples (198 percent jump), rising 33 places to 112th; Champs Sports (105 percent sales rise), up 19 notches to 122nd, and Bigg's (50 percent sales increase), up 11 slots to 102nd place on the list.

This special report was researched and written by the entire *DSN* editorial staff. The Top 150 listing of discount chains was coordinated by senior editor Kenneth Chanko and associate editor Richard Halverson, under the direction of editor Tony Lisanti and executive editor Don Longo. Additional research and articles were contributed by senior editors Arthur Markowitz and Peter Hisey, and associate editors Mary Ellen Kelly and Pam Krein.

Design and production was handled by senior desk editor Martha Gioumousis, who also produced the tables, graphs and charts for this section, desk editors Michael Vickerman and Dawn Wilensky, graphic artist Karen Kikta and art director Bob Brokman.

The Discount Industry's Top 150 Chains

Rank		Chain, Headquarters	Code	Sales (In Millions)		Percent Change	Earnings (Loss) (In Millions)		Percent Change	Number of Stores		
1988	1987			1988	1987		1988	1987		1/88	1/89	Proj. 1/90
1	1	**K mart,**[1] Troy, Mich.	DDS	$22,940	$22,241	3.1%	$1,436.0	$1,384.0	3.8%	2,105	2,145	2,200
2	2	**Wal-Mart,**[2] Bentonville, Ark.	DDS	16,820	13,248	27.0	1,325.0	1,068.0	24.1	1,114	1,259	1,414
3	3	**Target,** Minneapolis, Minn.	DDS	6,331	5,306	19.3	341.0	323.0	5.6	317	341	401
4	NR	**Montgomery Ward,**[3] Chicago, Ill.	DDS	4,784	4,639	3.1	130.0	139.0	(6.5)	316	324	350
5	5	**Price Club,** San Diego, Calif.	CLUB	4,053	3,236	25.2	156.6	139.7	12.1	37	41	47
6	9	**Sam's,** Bentonville, Ark.	CLUB	3,829	2,711	41.2	NA	NA	—	84	105	125
7	6	**Toys "R" Us,**[4] Rochelle Park, N.J.	TOY	3,645	2,887	26.3	428.8	345.9	24.0	350	410	467
8	10	**Ames,**[5] Rocky Hill, Conn.	DDS	3,363	2,112	59.2	47.2	34.2	38.0	488	820	866
9	8	**Service Merchandise,** Nashville, Tenn.	CAT	3,093	2,719	13.8	121.3	44.6	172.0	309	317	335
10	7	**Meijer,** Grand Rapids, Mich.	DDS	3,000	2,750	9.1	NA	NA	—	51	52	56
11	4	**Zayre,**[6] Framingham, Mass.	DDS	2,600	3,323	(21.8)	NA	(13.9)	—	382	0	0
12	12	**Bradlees,** Braintree, Mass.	DDS	2,107	2,064	2.1	84.9	57.0	48.9	130	131	130
13	11	**Best Products,** Richmond, Va.	CAT	2,088	2,067	1.0	NA	47.6	—	194	194	194
14	13	**Fred Meyer,** Portland, Ore.	DDS	2,074	1,848	12.2	57.0	54.0	5.6	99	112	122
15	17	**Costco,** Kirkland, Wash.	CLUB	1,989	1,370	45.2	31.1	10.8	188.0	43	50	62
16	14	**Marshalls,** Wakefield, Mass.	APP	1,753	1,603	9.4	NA	NA	—	286	309	335
17	18	**Circuit City,** Richmond, Va.	CE	1,721	1,350	27.5	114.5	89.2	28.4	105	125	145
18	15	**Hills,** Canton, Mass.	DDS	1,671	1,514	10.4	97.7	103.5	(5.6)	151	167	209
19	16	**Caldor,** Norwalk, Conn.	DDS	1,574	1,502	4.8	50.0	56.0	(10.7)	116	119	120
20	20	**T.J. Maxx,** Framingham, Mass.	APP	1,490	1,288	15.7	NA	NA	—	265	308	358
21	21	**Pay Less NW,** Wilsonville, Ore.	DRUG	1,450	1,200	20.8	58.0	48.0	20.8	259	269	299
22	19	**Rose's,** Henderson, N.C.	DDS	1,439	1,337	7.6	26.0	29.0	(10.3)	237	250	265
23	22	**Venture,** O'Fallon, Mo.	DDS	1,282	1,188	7.9	81.0	70.0	15.7	70	73	75
24	23	**ShopKo,** Green Bay, Wis.	DDS	1,280	1,072	19.4	76.0	61.0	24.6	75	87	99
25	24	**PACE,** Aurora, Colo.	CLUB	1,271	940	35.2	13.8	7.0	97.1	32	39	46
26	25	**Western Auto,**[7] Kansas City, Mo.	AUTO	1,107	931	18.9	NA	18.6	—	394	424	460
27	26	**Highland Superstores,** Taylor, Mich.	CE	911	753	21.0	18.9	17.7	6.8	72	84	97
28	30	**Silo,** Philadelphia, Pa.	CE	815	650	25.4	NA	NA	—	150	210	227
29	27	**Child World,**[8] Avon, Mass.	TOY	807	749	7.7	22.6	22.5	0.4	152	163	175
30	38	**BJ's Wholesale Club,** Natick, Mass.	CLUB	800	575	39.1	NA	NA	—	19	22	25
31	28	**Jamesway,** Secaucus, N.J.	DDS	783	701	11.7	15.6	20.5	(23.9)	111	121	131
32	34	**Kay-Bee,** Pittsfield, Mass.	TOY	780	610	27.9	NA	NA	—	676	727	797
33	32	**Lechmere,** Woburn, Mass.	DDS	769	636	20.9	22.0	23.0	(4.3)	24	27	29
34	39	**Family Dollar,** Charlotte, N.C.	DOLLAR	700	560	25.0	44.2	46.8	(5.6)	1,350	1,509	1,650
35	31	**Herman's,**[9] Carteret, N.J.	SPORT	700	640	9.4	NA	16.6	—	242	260	275
36	29	**Fedco,** Santa Fe Springs, Calif.	DDS	685	684	0.1	7.6	8.5	(10.6)	12	12	12
37	47	**Northern Automotive,**[10] Phoenix, Ariz.	AUTO	660	422	56.4	3.6	29.2	(87.7)	478	869	895
38	40	**Pep Boys,** Philadelphia, Pa.	AUTO	656	554	18.4	65.9	58.1	13.4	207	243	285
39	33	**Smitty's,**[11] Phoenix, Ariz.	DDS	640	615	4.1	NA	NA	—	19	20	21
40	43	**Burlington Coat,** Burlington, N.J.	APP	639	523	22.2	38.2	36.1	5.8	111	134	150
41	44	**Thrifty Corp.,**[12] Los Angeles, Calif.	SPORT	635	494	28.5	NA	NA	—	160	233	262
42	37	**Ross Stores,** Newark, Calif.	APP	634	576	10.1	36.9	18.9	95.2	131	140	158
43	35	**Consolidated Stores,**[13] Columbus, Ohio	CLOSE	627	590	6.3	41.6	27.3	52.4	295	308	335
44	60	**Price Savers,** Salt Lake City, Utah	CLUB	600	300	100.0	NA	NA	—	12	13	16
45	41	**Pamida,** Omaha, Neb.	DDS	568	526	8.0	8.7	3.7	135.1	165	165	172
46	36	**Dollar General,**[14] Scottsville, Ky.	DOLLAR	566	588	(3.7)	22.4	18.4	21.7	1,302	1,302	1,372
47	42	**Alexander's,** New York, N.Y.	DDS	525	523	0.4	(8.0)	2.2	—	14	13	11
48	45	**Best Buy,**[15] Minneapolis, Minn.	CE	507	439	15.5	2.1	2.8	(25.0)	40	41	51
49	49	**AutoZone,** Memphis, Tenn.	AUTO	440	384	14.6	NA	NA	—	396	441	501
50	52	**Value City,** Columbus, Ohio	DDS	424	353	20.1	NA	NA	—	42	45	56
51	51	**Fishers Big Wheel,** New Castle, Pa.	DDS	420	359	17.0	NA	NA	—	86	92	107
52	54	**Lionel Leisure,**[16] Philadelphia, Pa.	TOY	409	341	19.9	4.0	3.8	5.3	77	84	94
53	50	**Pic 'N' Save,**[17] Carson, Calif.	CLOSE	402	362	11.0	77.7	85.7	(9.3)	125	158	188
54	65	**The Wholesale Club,** Indianapolis, Ind.	CLUB	402	272	47.8	5.2	(0.5)	—	15	18	23
55	53	**Hit or Miss,** Framingham, Mass.	APP	370	348	6.3	NA	NA	—	485	506	551
56	70	**Kids "R" Us,** Rochelle Park, N.J.	APP	355	250	42.0	NA	NA	—	74	112	137
57	55	**Loehmann's,** Bronx, N.Y.	APP	334	351	(4.8)	1.5	NA	—	76	73	73
58	58	**Clover,** Philadelphia, Pa.	DDS	335	315	6.3	NA	NA	—	21	22	23
59	62	**Tops Appliances,** Edison, N.J.	CE	320	284	12.7	NA	NA	—	2	2	3
60	56	**ALCO,**[18] Abilene, Kan.	DDS	317	328	(3.4)	(5.9)	(1.5)	—	148	150	99
61	64	**Chief Auto Parts,** Dallas, Texas	AUTO	312	275	13.5	NA	NA	—	465	479	507
62	61	**Oshman's,**[19] Easton, Texas	SPORT	305	284	7.4	7.8	5.7	36.8	186	193	200
63	48	**Heck's,**[20] Nitro, W.Va.	DDS	301	412	(26.9)	NA	(63.5)	—	118	75	55
64	74	**Bi-Mart,** Eugene, Ore.	DDS	300	240	25.0	NA	7.1	—	37	38	41
65	68	**Consumers Distributing,** Edison, N.J.	CAT	300	252	19.0	NA	NA	—	88	88	89
66	63	**Filene's Basement,**[21] Wellesley, Mass.	APP	300	278	7.9	NA	NA	—	22	22	24
67	71	**Makro,** Cincinnati, Ohio	CLUB	300	250	20.0	NA	NA	—	4	6	10
68	67	**Syms,** Lyndhurst, N.J.	APP	283	255	11.0	31.0	31.0	0.0	21	22	26
69	NR	**Hypermart USA,** Bentonville, Ark.	HYPER	275	0	ERR	NA	NA	—	1	3	3
70	59	**S.E. Nichols,** New York, N.Y.	DDS	274	302	(9.3)	(3.5)	(1.9)	—	42	41	30
71	66	**Ann & Hope,** Cumberland, R.I.	DDS	265	258	2.7	NA	NA	—	6	6	6
72	84	**Nationwise,**[22] Columbus, Ohio	AUTO	262	190	37.9	NA	NA	—	200	285	300
73	75	**Brendles,** Elkin, N.C.	CAT	261	228	14.5	2.4	6.8	(64.7)	42	40	46
74	95	**Whitlock,**[23] Des Plaines, Ill.	AUTO	260	150	73.3	NA	NA	—	162	252	288
75	57	**Crazy Eddie,** Edison, N.J.	CE	253	317	(20.2)	(50.1)	(109.0)	—	42	43	25

Chain Codes: • **DDS:** Discount Department Store • **APP:** Off-Price Apparel Chain • **CE:** Consumer Electronics Chain • **CAT:** Catalog Showroom • **AUTO:** Auto Aftermarket Specialty Chain • **CLUB:** Membership Warehouse Club • **SPORT:** Sporting Goods Specialty Chain • **TOY:** Toy Specialty Chain • **DOLLAR:** Dollar Variety Chain • **DRUG:** Drug Chain (with high percentage of general merchandise) • **CLOSE:** Closeout Chain • **HYPER:** Hypermarket • **OFFICE:** Office Supply Megastore

Sales: *total store volume from apparel, general merchandise, groceries*
Earnings: *operating income (profit/loss from continuing operations, before taxes and extraordinary items)*
NA—not available
(NA)—unknown loss
NR—not ranked

[1] *K mart sales/store counts include discount stores only; earnings include Makro and specialty divisions.*

[2] *Wal-Mart sales/store counts include discount stores and SuperCenters; earnings include Sam's Wholesale Club and other divisions.*

[3] *Montgomery Ward is included for first time based on the retailer's shift to an everyday low price/specialty store-within-a-store strategy in 1987.*

[4] *Toys "R" Us includes domestic and foreign toy stores only; earnings also include Kids "R" Us.*

[5] *Ames' 1988 sales include $1.05 billion of Zayre discount store sales in the fourth quarter; store counts include Zayre acquisition in 1988.*

[6] *Zayre's 1988 sales are estimated through third quarter. Discount stores were acquired by Ames in September 1988.*

[7] *Western Auto sales include: company-owned units, Tire America and NTW tire stores, and wholesale revenues from supplying associate stores (associate stores are not included in store count).*

[8] *Child World includes Child World and Children's Palace chains.*

[9] *Herman's include Sunset Sports chain.*

[10] *Northern Automotive includes Schuck's, Checker, Kragen, Auto Works and Crown chains; fiscal year ended Nov. 7, 1988.*

[11] *Smitty's figures exclude three food-only stores.*

[12] *Thrifty includes Big 5, MC Sporting Goods, Gart Bros., Browns, Dave Cook's Sporting Goods and Mages chains.*

[13] *Consolidated Stores includes 1988 wholesale sales of $25.6 million.*

[14] *Dollar General figures adjusted to reflect 12-month period ended Dec. 31. Company's new fiscal year ends Jan. 31.*

[15] *Best Buy earnings are net.*

[16] *Lionel Leisure includes Kiddie City, Playworld and Toy Warehouses chains.*

[17] *Pic 'N' Save includes Job-Lot Trading, acquired December 1988.*

[18] *ALCO is in Chapter 11.*

[19] *Oshman's includes Oshman's Honsport and SuperSports USA chains; 1987 earnings include Abercrombie & Fitch, which was sold in February 1988.*

[20] *Heck's is in Chapter 11.*

[21] *Filene's Basement became a private company in 1988.*

[22] *Nationwise includes Guarantee Auto ($52 mil. in sales in 1988), acquired in February 1988; its fiscal year ended Nov. 7, 1988.*

[23] *Whitlock includes R&S Strauss, Whitlock and Rose Auto chains in 1988; excludes R&S Strauss sales of $72 million in 1987.*

Source: DSN research

The Discount Industry's Top 150 Chains

Rank		Chain, Headquarters	Code	Sales (In Millions)		Percent Change	Earnings (Loss) (In Millions)		Percent Change	Number of Stores		
1988	1987			1988	1987		1988	1987		1/88	1/89	Proj. 1/90
76	46	**The Federated Group,** Sunnyvale, Calif.	CE	$ 253	$ 437	(42.1%)	(NA)	NA	—	65	61	0
77	72	**TSS,**[1] Brooklyn, N.Y.	DDS	250	250	0.0	NA	NA	—	22	14	14
78	76	**Warehouse Club,** Skokie, Ill.	CLUB	249	228	9.2	($5.9)	($5.0)	—	12	12	12
79	79	**Trak Auto,** Landover, Md.	AUTO	243	212	14.6	4.6	8.3	(44.6%)	245	274	300
80	73	**Newmark & Lewis,** Hicksville, N.Y.	CE	238	242	(1.7)	4.6	(2.5)	—	46	52	57
81	82	**American TV,** Madison, Wis.	CE	235	199	18.1	NA	NA	—	6	7	7
82	77	**The Wiz,** New York, N.Y.	CE	235	218	7.8	NA	NA	—	24	26	28
83	69	**Fretter,**[2] Livonia, Mich.	CE	231	250	(7.6)	1.3	1.4	(7.1)	47	54	60
84	81	**Rich's,** Salem, Mass.	DDS	230	205	12.2	NA	6.0	—	21	21	21
85	80	**L. Luria & Son,** Miami Lakes, Fla.	CAT	216	205	5.4	8.0	11.3	(29.2)	43	47	49
86	86	**Dress Barn,**[3] Stamford, Conn.	APP	204	174	17.2	25.4	24.4	4.1	302	378	440
87	83	**Harts,**[4] Columbus, Ohio	DDS	204	192	6.3	7.0	9.1	(23.1)	29	33	33
88	78	**Audio-Video Affiliates,** Dayton, Ohio	CE	196	212	(7.5)	4.9	6.5	(24.6)	114	125	130
89	88	**Bill's Dollar Stores,** Jackson, Miss.	DOLLAR	191	164	16.5	NA	NA	—	340	400	500
90	87	**PACCAR,**[5] Renton, Wash.	AUTO	190	173	9.8	NA	NA	—	131	135	145
91	96	**Yellow Front,** Phoenix, Ariz.	DDS	185	149	24.2	NA	9.3	—	171	155	169
92	92	**Greenman Bros.,**[6] Farmingdale, N.Y.	TOY	177	154	14.9	5.0	(4.5)	—	321	326	338
93	90	**Click,** Akron, Ohio	DDS	175	160	9.4	NA	NA	—	9	9	9
94	89	**Gee Bee,**[7] Johnstown, Pa.	DDS	175	163	7.4	NA	1.6	—	22	24	20
95	85	**Clothestime,** Anaheim, Calif.	APP	171	179	(4.5)	(4.8)	11.5	—	338	335	335
96	91	**Quality Stores,** N. Muskegon, Mich.	DDS	166	155	7.1	NA	NA	—	45	51	60
97	97	**K's Merchandise,** Decatur, Ill.	CAT	165	147	12.2	NA	NA	—	11	11	12
98	94	**Sportmart,** Niles, Ill.	SPORT	165	150	10.0	NA	NA	—	18	21	24
99	93	**Prange Way,** Green Bay, Wis.	DDS	160	150	6.7	NA	NA	—	20	25	25
100	98	**Swallen's,** Cincinnati, Ohio	DDS	158	147	7.5	NA	NA	—	9	9	9
101	103	**Wall to Wall Sound,** Cinnaminson, N.J.	CE	152	132	15.2	NA	NA	—	107	107	107
102	113	**Bigg's,** Cincinnati, Ohio	HYPER	150	100	50.0	NA	NA	—	1	3	4
103	107	**The Good Guys,**[8] San Francisco, Calif.	CE	149	120	24.2	5.4	4.9	10.2	15	18	22
104	106	**Grandpa Pidgeon's,** Bridgeton, Mo.	DDS	140	120	16.7	NA	NA	—	7	8	9
105	99	**Sky City,** Asheville, N.C.	DDS	140	145	(3.4)	NA	NA	—	72	66	66
106	100	**Stuarts,** Hopkinton, Mass.	DDS	140	140	0.0	0.8	0.3	166.7	20	21	23
107	101	**Trader Horn,** Hasbrouck Heights, N.J.	CE	140	140	0.0	NA	NA	—	15	16	16
108	102	**Chaffin,** Dodge City, Kan.	DDS	135	135	0.0	NA	NA	—	33	32	32
109	146	**Office Depot,** Boca Raton, Fla.	OFFICE	132	34	288.2	3.9	(2.3)	—	10	26	55
110	105	**David Weis,** Monroeville, Pa.	CAT	130	125	4.0	NA	NA	—	17	17	18
111	104	**Luskins,** Baltimore, Md.	CE	123	127	(3.1)	(0.0)	(3.1)	—	44	45	46
112	145	**Staples,** Newton, Mass.	OFFICE	120	40	200.0	(1.9)	(8.5)	—	9	22	38
113	111	**G.I. Joe's,** Wilsonville, Ore.	DDS	115	105	9.5	NA	NA	—	11	11	11
114	118	**Stein Mart,** Jacksonville, Fla.	DDS	115	93	23.7	NA	2.5	—	24	28	32
115	112	**Arvey Paper,** Chicago, Ill.	OFFICE	100	100	0.0	NA	NA	—	34	36	40
116	114	**Brick Church,** Orange, N.J.	CE	100	100	0.0	NA	NA	—	22	40	40
117	115	**Buyer's Club,** Englewood, Colo.	CLUB	100	100	0.0	NA	NA	—	4	4	3
118	117	**Fred Schmid,** Denver, Colo.	CE	100	93	7.5	NA	NA	—	17	19	16
119	116	**Super City,** Tucson, Ariz.	OFFICE	100	100	0.0	NA	NA	—	17	16	16
120	122	**The Andersons,** Maumee, Ohio	DDS	100	80	25.0	NA	NA	—	5	6	6
121	120	**NBO Stores,** Secaucus, N.J.	APP	96	86	11.6	NA	NA	—	34	NA	NA
122	141	**Champs Sports,** Bradenton, Fla.	SPORT	88	43	104.7	NA	NA	—	43	130	184
123	121	**Laneco,**[9] Palmer, Pa.	DDS	85	80	6.3	NA	NA	—	13	13	14
124	131	**Academy,** Houston, Texas	SPORT	82	64	28.1	NA	NA	—	23	24	27
125	125	**The Fair Company,** Worcester, Mass.	DDS	82	75	9.3	NA	NA	—	7	8	8
126	128	**Tuesday Morning,** Dallas, Texas	CLOSE	82	73	12.3	5.3	6.7	(20.9)	85	101	113
127	127	**Building #19,** Hingham, Mass.	CLOSE	80	73	9.6	NA	NA	—	9	9	10
128	129	**Dahlkemper's,** Erie, Pa.	CAT	80	70	14.3	NA	NA	—	9	8	9
129	110	**Mars,**[10] North Dighton, Mass.	DDS	80	107	(25.2)	(8.4)	(7.2)	—	18	14	0
130	108	**W. Bell,**[11] Rockville, Md.	CAT	79	117	(32.5)	2.6	1.2	116.7	18	18	19
131	130	**The Present Co.,** Rochester, N.Y.	CAT	77	66	16.7	NA	NA	—	21	24	25
132	124	**Sterling Jewelry,** Dallas, Texas	CAT	75	75	0.0	NA	NA	—	5	5	5
133	126	**Van Leunen's,** Cincinnati	DDS	75	75	0.0	NA	NA	—	7	7	7
134	133	**Evans,** Rockville, Md.	CAT	72	55	30.9	NA	NA	—	6	9	12
135	132	**Modell's,** East Meadow, N.Y.	SPORT	71	63	12.7	NA	NA	—	22	28	33
136	123	**Club Wholesale,** Meridian, Idaho	CLUB	65	75	(13.3)	NA	NA	—	5	5	8
137	134	**K & K Toys,** Norfolk, Va.	TOY	65	55	18.2	NA	NA	—	109	119	130
138	135	**Odd Job Trading,** New York, N.Y.	CLOSE	65	55	18.2	NA	NA	—	7	16	16
139	144	**One Price Clothing,** Duncan, S.C.	APP	64	41	56.1	6.2	4.8	29.2	95	155	215
140	NR	**Carrefour,** Philadelphia, Pa.	HYPER	60	0	ERR	(NA)		—	1	1	1
141	119	**Maxway,**[12] Sanford, N.C.	DDS	59	88	(33.0)	NA	(4.4)	—	72	50	44
142	138	**Apex,** Pawtucket, R.I.	DDS	55	45	22.2	NA	NA	—	3	3	3
143	143	**Bargain Town,**[13] Montgomery, Ala.	DOLLAR	55	42	31.0	NA	NA	—	58	60	60
144	137	**Witmark,** Grand Rapids, Mich.	CAT	53	50	6.0	NA	NA	—	8	8	9
145	142	**S&K Famous Brands,** Richmond, Va.	APP	52	43	20.9	1.0	0.9	17.6	59	74	99
146	147	**Office Club,** Concord, Calif.	OFFICE	51	11	363.6	(3.3)	(2.6)	—	5	15	28
147	136	**Kingsway,** Detroit, Mich.	DDS	50	50	0.0	NA	NA	—	3	3	3
148	140	**Goldblatt,** Chicago, Ill.	DDS	48	45	6.7	3.4	3.4	0.0	10	10	12
149	109	**Jewelcor,** Wilkes Barre, Pa.	CAT	47	112	(58.0)	NA	(3.8)	—	15	9	6
150	139	**E.H. Tepe,** South Bend, Ind.	CAT	46	45	2.2	NA	NA	—	10	10	10
		Top 10 Totals and Averages:		$ 71,858	$ 61,849	16.2%	$3,985.9	$3,478.4	14.6%	5,171	5,814	6,261
		Top 25 Totals and Averages:		$ 97,647	$ 85,515	14.2%	$4,675.9	$4,097.6	14.1%	7,615	8,047	8,720
		Top 50 Totals and Averages:		$114,625	$99,891	14.8%	$5,018.2	$4,468.5	12.3%	14,189	15,573	16,883
		Top 100 Totals and Averages:		$127,602	$111,707	14.2%	$5,138.4	$4,509.6	13.9%	19,145	20,988	22,628
		Top 150 Totals and Averages:		**$132,122**	**$115,715**	**14.2%**	**$5,153.4**	**$4,502.4**	**14.5%**	**20,409**	**22,465**	**24,338**

Chain Codes: ● **DDS:** Discount Department Store ● **APP:** Off-Price Apparel Chain ● **CE:** Consumer Electronics Chain ● **CAT:** Catalog Showroom ● **AUTO:** Auto Aftermarket Specialty Chain ● **CLUB:** Membership Warehouse Club ● **SPORT:** Sporting Goods Specialty Chain ● **TOY:** Toy Specialty Chain ● **DOLLAR:** Dollar Variety Chain ● **DRUG:** Drug Chain (with high percentage of general merchandise) ● **CLOSE:** Closeout Chain ● **HYPER:** Hypermarket ● **OFFICE:** Office Supply Megastore

Sales: *total store volume from apparel, general merchandise, groceries*

Earnings: *operating income (profit/loss from continuing operations, before taxes and extraordinary items)*

NA—not available

(NA)—unknown loss

NR—not ranked

[1] *TSS sales include 17 Finders Keepers off-price apparel stores; store count is for full-line stores only.*

[2] *Fretter earnings are net.*

[3] *Dress Barn: fiscal year ended July 30, 1988.*

[4] *Harts includes four Big Bear Plus units but excludes Big Bear supermarket chain; figures are for fiscal year ended Aug. 27, 1988.*

[5] *PACCAR includes Al's Auto Supply and Grand Auto chains.*

[6] *Greenman Bros. includes Circus World and PlayWorld chains.*

[7] *Gee Bee's parent, Glosser Bros. is in Chapter 11; sales are consolidated sales for Gee Bee discount stores and Dollar Bargain closeout chain; store count is Gee Bee only.*

[8] *The Good Guys: fiscal year ended Sept. 30, 1988.*

[9] *Laneco includes combo stores only; excludes supermarkets and two full-price department stores.*

[10] *Mars is in liquidation.*

[11] *W. Bell 1988 sales are for a seven-month fiscal year following the change to a January ending date from June.*

[12] *Maxway is in Chapter 11.*

[13] *Bargain Town sales include Bargain Town dollar stores and approximately 40 Simply Six one-price apparel units.*

Source: DSN research

Leading Discount Chains: The Big Get Bigger

The big got bigger in 1988, as the leading chains in the discount department store, catalog showroom, membership warehouse club, dollar store and specialty chain industries widened their lead over the smaller chains.

The ultimate measure of dominance in retailing—the bottom line—marked K mart, Wal-Mart and Target as the continued leaders among full-line discounters.

Service Merchandise, which enjoyed a tremendous turnaround year during 1988, was the sole cataloger to make the top profits list.

Similarly Price Club remained the only warehouse club among those that release earnings results to rank among the top profit generating companies.

Among dollar chain operators, Family Dollar was the only one to rank among the top 20 profit leaders. Two years ago, this chain switched from a promotional to an everyday low price strategy, which initially had a negative impact on income.

Toys "R" Us, Circuit City and Pep Boys were unrivaled specialty operators in their respective fields, outdistancing competitors in profits. The power and growth momentum of these chains threatens the existence of competitors who share common markets.

Two closeout chains among the top profit leaders will need to secure market share if they are to continue to flourish following the consolidations going on within this industry.

McCrory Stores, which bought the Odd Lot closeout chain earlier this year, plans to convert those units into McCrory variety stores. At the same time, McCrory is planning the conversion of 200 former TG&Y stores to Bargain Time closeout operations by year-end. An aggressive store agenda opening by Bargain Time could jeopardize the hold that Pic 'N' Save and Consolidated Stores have on the closeout industry.

While K mart remained the chain with the most stores, the dollar store operators are quickly catching up. Family Dollar and Dollar General are nearly neck-and-neck now for the No. 2 spot, but by next year, Wal-Mart is estimated to bring its store count above Dollar General's. Family Dollar is expected to maintain a strong hold on the No. 2 position.

The majority of the chains with the highest store counts are specialty stores, but these units are small. The relatively large size of discount department stores put them ahead of most other retailers when it comes to selling space.

Sales Volume Leaders

Chain	Code	Sales (In Millions) 1988	1987	1986	Percent Change '87-'88
K mart	DDS	$22,940	$22,241	$21,308	3.1%
Wal-Mart	DDS	16,820	13,248	10,200	27.0
Target	DDS	6,331	5,306	4,355	19.3
Montgomery Ward	DDS	4,784	4,639	4,383	3.1
Price Club	CLUB	4,053	3,236	2,667	25.2
Sam's	CLUB	3,829	2,711	1,678	41.2
Toys "R" Us	TOY	3,645	2,887	2,320	26.3
Ames	DDS	3,363	2,112	1,888	59.2
Service Merchandise	CAT	3,093	2,719	2,527	13.8
Meijer	DDS	3,000	2,750	2,310	9.1
Zayre	DDS	2,600	3,323	3,046	(21.8)
Bradlees	DDS	2,107	2,064	1,873	2.1
Best Products	CAT	2,088	2,067	2,142	1.0
Fred Meyer	DDS	2,074	1,848	1,688	12.2
Costco	CLUB	1,989	1,370	747	45.2
Marshalls	APP	1,753	1,603	1,409	9.4
Circuit City	CE	1,721	1,350	1,011	27.5
Hills	DDS	1,671	1,514	1,343	10.4
Caldor	DDS	1,574	1,502	1,348	4.8
T.J. Maxx	APP	1,490	1,288	1,395	15.7

Source: DSN research

Store Count Leaders

Chain	Code	Number of Stores 1/87	1/88	1/89	Proj. 1/90
K mart	DDS	2,204	2,105	2,145	2,200
Family Dollar	DOLLAR	1,107	1,350	1,509	1,650
Dollar General	DOLLAR	1,339	1,302	1,302	1,372
Wal-Mart	DDS	980	1,114	1,259	1,414
Northern Automotive	AUTO	474	478	869	895
Ames	DDS	463	488	820	866
Kay-Bee	TOY	639	676	727	797
Hit or Miss	APP	461	485	506	551
Chief Auto Parts	AUTO	485	465	479	507
AutoZone	AUTO	386	396	441	501
Western Auto	AUTO	NA	394	424	460
Toys "R" Us	TOY	295	350	410	467
Bill's Dollar Stores	DOLLAR	NA	340	400	500
Dress Barn	APP	235	302	378	440
Target	DDS	246	317	341	401
Clothestime	APP	263	338	335	335
Greenman Bros.	TOY	310	321	326	338
Montgomery Ward	DDS	295	316	324	350
Service Merchandise	CAT	300	309	317	335
Marshalls	APP	261	286	309	335

NA—not available

Source: DSN research

Selling Space Leaders

Chain	Code	Number of Stores 1/89	Proj. 1/90	Average Store Size (In 000 (Sq. Ft.)	Total Footage (In 000 Sq. Ft.)
K mart	DDS	2,145	2,200	58	124,410
Wal-Mart	DDS	1,259	1,414	80	100,720
Ames	DDS	820	866	64	52,644
Target	DDS	341	401	100	34,100
Montgomery Ward	DDS	324	350	80	25,920
Toys "R" Us	TOY	410	467	46	18,860
Service Merchandise	CAT	317	335	55	17,435
Hills	DDS	167	209	80	13,360
Best Products	CAT	194	194	65	12,610
Fred Meyer	DDS	112	122	105	11,760
Family Dollar	DOLLAR	1,509	1,650	7	10,563
Rose's	DDS	250	265	42	10,500
Sam's	CLUB	105	125	100	10,500
Caldor	DDS	119	120	82	9,758
Bradlees	DDS	131	130	72	9,432
Meijer	DDS	52	56	180	9,360
Marshalls	APP	309	335	28	8,652
Consolidated Stores	CLOSE	308	335	28	8,624
Pay Less NW	DRUG	269	299	31	8,339
Dollar General	DOLLAR	1,302	1,372	6	7,421

Source: DSN research

Profit Leaders

Chain	Code	Sales (In Mils.) 1988	Earnings* (Loss) (In Millions) 1988	1987	Earnings Percent Change
K mart	DDS	$22,940	$1,436.0	$1,384.0	3.8%
Wal-Mart[1]	DDS	16,820	1,325.0	1,068.0	24.1
Toys "R" Us[2]	TOY	3,645	428.8	345.9	24.0
Target	DDS	6,331	341.0	323.0	5.6
Price Club	CLUB	4,053	156.6	139.7	12.1
Montgomery Ward	DDS	4,784	130.0	139.0	(6.5)
Service Merchandise	CAT	3,093	121.3	44.6	172.0
Circuit City	CE	1,721	114.5	89.2	28.4
Hills	DDS	1,671	97.7	103.5	(5.6)
Bradlees	DDS	2,107	84.9	57.0	48.9
Venture	DDS	1,282	81.0	70.0	15.7
Pic 'N' Save	CLOSE	402	77.7	85.7	(9.3)
ShopKo	DDS	1,280	76.0	61.0	24.6
Pep Boys	AUTO	656	65.9	58.1	13.4
Pay Less NW	DRUG	1,450	58.0	48.0	20.8
Fred Meyer	DDS	2,074	57.0	54.0	5.6
Caldor	DDS	1,574	50.0	56.0	(10.7)
Ames	DDS	3,363	47.2	34.2	38.0
Family Dollar	DOLLAR	700	44.2	46.8	(5.6)
Consolidated Stores	CLOSE	627	41.6	27.3	52.4

**Earnings represent profit/loss from continuing operations, before taxes and extraordinary items.*

[1] *Wal-Mart earnings includes Sam's Wholesale Club.*

[2] *Toys "R" Us earnings includes Kids "R" Us.*

Source: DSN research

The Fastest Growing Discount Chains

As could be expected, new retailing concepts, like office supply megastore chains, are liberally represented among the discount industry's growth leaders. Less expected is the omnipresence of Wal-Mart in these rankings.

As the retail industry continues to watch the "mature" discount department store, Wal-Mart persists in proving that the market can be vital and growing.

Double-digit sales and earnings growth rates combined with triple-digit store count growth sets this powerhouse apart and forces other retailers to ask themselves, "if they can do it, why can't we?"

Wal-Mart left everyone else in the dust in terms of dollar earnings growth last year. The discount department store giant reported a $257 million surge in earnings. The next nearest contender for earnings growth was Toys "R" Us, which gained $82.9 million over 1987 earnings.

In addition to Wal-Mart, the list of top chains in percentage sales growth includes many small companies that are likely to impact the industry in the next few years—provided they are able grow fast enough to withstand intense competition, but not so fast that they are unable to digest their own expansion.

Six of the top chains in dollar sales growth were membership warehouse clubs. Despite the relatively low growth rate of their store count, each opening represents huge gains in volume.

While discount department stores accounted for only seven of the firms listed on the sales growth chart, the top two retailers in this ranking were discounters.

Among specialty stores each industry was represented, usually by just the single dominant player in each category. Toys "R" Us, Circuit City, Northern Automotive and T.J. Maxx led their respective industries as top sales growth generators.

The two leading chains in store count growth achieved this distinction through major acquisitions: Northern Automotive by its purchase of Auto Works and Crown Auto, and Ames Department Stores by acquiring Zayre Stores.

Most of the other chains that comprise the top 20 listed in store count growth are either younger chains in a high growth mode, or industry leaders who continue to snowball in strength and momentum each year.

Once again, the notable exception is Wal-Mart, which generates tremendous growth on a huge base.

Top Chains in Dollar Sales Growth

Chain	Code	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Sales Growth (In Millions)
Wal-Mart	DDS	$16,820	$13,248	27.0%	$3,572
Ames	DDS	3,363	2,112	59.2	1,251
Sam's	CLUB	3,829	2,711	41.2	1,118
Target	DDS	6,331	5,306	19.3	1,025
Price Club	CLUB	4,053	3,236	25.2	817
Toys "R" Us	TOY	3,645	2,887	26.3	758
K mart	DDS	22,940	22,241	3.1	699
Costco	CLUB	1,989	1,370	45.2	619
Service Merchandise	CAT	3,093	2,719	13.8	374
Circuit City	CE	1,721	1,350	27.5	371
PACE	CLUB	1,271	940	35.2	331
Price Savers	CLUB	600	300	100.0	300
Hypermart USA	HYPER	275	0	—	275
Meijer	DDS	3,000	2,750	9.1	250
Pay Less NW	DRUG	1,450	1,200	20.8	250
Northern Automotive	AUTO	660	422	56.4	238
Fred Meyer	DDS	2,074	1,848	12.2	226
BJ's Wholesale Club	CLUB	800	575	39.1	225
ShopKo	DDS	1,280	1,072	19.4	208
T.J. Maxx	APP	1,490	1,288	15.7	202

Source: DSN *research*

Top Chains in Percentage Sales Growth

Chain	Code	Sales (In Millions) 1988	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change '87-'88
Office Depot	OFFICE	$ 132	$ 34	NA	288.2%
Staples	OFFICE	119	40	NA	197.5
Price Savers	CLUB	600	300	174	100.0
Whitlock	AUTO	260	150	139	73.3
Ames	DDS	3,363	2,112	1,888	59.2
Northern Automotive	AUTO	660	422	485	56.4
Bigg's	HYPER	150	100	NA	50.0
The Wholesale Club	CLUB	402	272	158	47.8
Costco	CLUB	1,989	1,370	747	45.2
Kids "R" Us	APP	355	250	125	42.0
Sam's	CLUB	3,829	2,711	1,678	41.2
BJ's Wholesale Club	CLUB	800	575	350	39.1
Nationwise	AUTO	262	190	200	37.9
PACE	CLUB	1,271	940	595	35.2
Thrifty Corp.	SPORT	635	494	359	28.5
Kay-Bee	TOY	780	610	487	27.9
Circuit City	CE	1,721	1,350	1,011	27.5
Wal-Mart	DDS	16,820	13,248	10,200	27.0
Toys "R" Us	TOY	3,645	2,887	2,320	26.3
Silo	CE	815	650	600	25.4

Minimum $100 million in 1988 sales
NA—not available

Source: DSN *research*

Top Chains in Store Count Growth

Chain	Code	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Number of New Stores in 1988
Northern Automotive	AUTO	478	869	895	391
Ames	DDS	488	820	866	332
Family Dollar	DOLLAR	1,350	1,509	1,650	159
Wal-Mart	DDS	1,114	1,259	1,414	145
Whitlock	AUTO	162	252	288	90
Champs Sports	SPORT	43	130	184	87
Nationwise	AUTO	200	285	300	85
Dress Barn	APP	302	378	440	76
Thrifty Corp.	SPORT	160	233	262	73
Bill's Dollar Stores	DOLLAR	340	400	500	60
One Price Clothing Stores	APP	95	155	215	60
Silo	CE	150	210	227	60
Toys "R" Us	TOY	350	410	467	60
Kay-Bee	TOY	676	727	797	51
AutoZone	AUTO	396	441	501	45
T.J. Maxx	APP	265	308	358	43
K mart	DDS	2,105	2,145	2,200	40
Kids "R" Us	APP	74	112	137	38
Only a Dollar	DOLLAR	21	58	100	37
Pep Boys	AUTO	207	243	285	36

Source: DSN *research*

Top Chains in Dollar Earnings Growth

Chain	Code	Earnings* (Loss) (In Millions) 1988	Earnings* (Loss) (In Millions) 1987	Percent Change	Earnings Growth (In Millions)
Wal-Mart	DDS	$1,325.0	$1,068.0	24.1%	$257.0
Toys "R" Us	TOY	428.8	345.9	24.0	82.9
Service Merchandise	CAT	121.3	44.6	172.0	76.7
K mart	DDS	1,436.0	1,384.0	3.8	52.0
Bradlees	DDS	84.9	57.0	48.9	27.9
Circuit City	CE	114.5	89.2	28.4	25.3
Costco	CLUB	31.1	10.8	188	20.3
Ross Stores	APP	36.9	18.9	95.2	18.0
Target	DDS	341.0	323.0	5.6	18.0
Price Club	CLUB	156.6	139.7	12.1	16.9
ShopKo	DDS	76.0	61.0	24.6	15.0
Consolidated Stores	CLOSE	41.6	27.3	52.4	14.3
Ames	DDS	47.2	34.2	38.0	13.0
Venture	DDS	81.0	70.0	15.7	11.0
Pay Less NW	DRUG	58.0	48.0	20.8	10.0
Greenman Bros.	TOY	5.0	(4.4)	—	9.4
Pep Boys	AUTO	65.9	58.1	13.4	7.8
Newmark & Lewis	CE	4.6	(2.5)	—	7.1
PACE	CLUB	13.8	7.0	97.1	6.8
Office Depot	OFFICE	3.9	(2.3)	—	6.2

**Earnings represent profit/loss from continuing operations, before taxes and extraordinary items.*

Source: DSN *research*

Top Full-Line Discount Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores			Average Store Size (In Sq. Ft.)
	1988	1987		1/88	1/89	Proj. 1/90	
K mart[1] Troy, Mich.	$22,940	$22,241	3.1%	2,105	2,145	2,200	58,000
Wal-Mart[2] Bentonville, Ark.	16,820	13,248	27.0	1,114	1,259	1,414	80,000
Target Minneapolis, Minn.	6,331	5,306	19.3	317	341	401	100,000
Montgomery Ward[3] Chicago, Ill.	4,784	4,639	3.1	316	324	350	80,000
Ames[4] Rocky Hill, Conn.	3,363	2,112	59.2	488	820	866	64,000
Meijer Grand Rapids, Mich.	3,000	2,750	9.1	52	52	56	180,000
Zayre[5] Framingham, Mass.	2,600	3,323	(21.8)	382	0	0	70,000
Bradlees Braintree, Mass.	2,107	2,064	2.1	130	131	130	72,000
Fred Meyer Portland, Ore.	2,074	1,848	12.2	99	112	122	105,000
Hills Canton, Mass.	1,671	1,514	10.4	151	167	209	80,000
Caldor Norwalk, Conn.	1,574	1,502	4.8	116	119	120	82,000
Rose's Henderson, N.C.	1,439	1,337	7.6	237	250	265	42,000
Venture O'Fallon, Mo.	1,282	1,188	7.9	70	73	75	83,000
ShopKo Green Bay, Wis.	1,280	1,072	19.4	75	87	99	70,000
Jamesway Secaucus, N.J.	783	701	11.7	111	121	131	57,000
Lechmere Woburn, Mass.	769	636	20.9	24	27	29	75,000
Fedco Santa Fe Springs, Calif.	685	684	0.1	12	12	12	180,000
Smitty's[6] Phoenix, Ariz.	640	615	4.1	19	20	21	100,000
Pamida Omaha, Neb.	568	526	8.0	165	165	172	25,000
Alexander's New York, N.Y.	525	523	0.4	14	13	11	250,000
Value City Columbus, Ohio	424	353	20.1	42	45	56	80,000
Fishers Big Wheel New Castle, Pa.	420	359	17.0	86	92	107	45,000
Clover Philadelphia, Pa.	335	315	6.3	21	22	23	85,000
ALCO[7] Abilene, Kan.	317	328	(3.4)	148	150	99	35,000
Heck's[8] Nitro, W.Va.	301	412	(26.9)	118	75	55	40,000
Bi-Mart Eugene, Ore.	300	240	25.0	37	38	41	30,000
S.E. Nichols New York, N.Y.	274	302	(9.3)	42	41	30	87,000
Ann & Hope Cumberland, R.I.	265	258	2.7	6	6	6	180,000
TSS[9] Brooklyn, N.Y.	250	250	0.0	22	14	14	150,000
Rich's Salem, Mass.	230	205	12.2	21	21	21	60,000
Harts[10] Columbus, Ohio	204	192	6.3	29	33	33	68,000
Yellow Front Phoenix, Ariz.	185	149	24.2	171	155	169	12,000
Gee Bee[11] Johnstown, Pa.	175	163	7.4	22	24	20	72,000
Click Akron, Ohio	175	160	9.4	9	9	9	115,000
Quality Stores N. Muskegon, Mich.	166	155	7.1	45	51	60	20,000
Prange Way Green Bay, Wis.	160	150	6.7	20	25	25	65,000
Swallen's Cincinnati, Ohio	158	147	7.5	9	9	9	135,000
Grandpa Pidgeon's Bridgeton, Mo.	140	120	16.7	7	8	9	72,000
Stuarts Hopkinton, Mass.	140	140	0.0	20	21	23	60,000
Sky City Asheville, N.C.	140	145	(3.4)	72	66	66	40,000
Chaffin Dodge City, Kan.	135	135	0.0	33	32	32	39,000
Stein Mart Jacksonville, Fla.	115	93	23.7	24	28	32	40,000
G.I. Joe's Wilsonville, Ore.	115	105	9.5	11	11	11	58,000
The Andersons Maumee, Ohio	100	80	25.0	5	6	6	108,000
Laneco[12] Palmer, Pa.	85	80	6.3	13	13	14	83,000
The Fair Company Worcester, Mass.	82	75	9.3	7	8	8	80,000
Mars[13] North Dighton, Mass.	80	107	(25.2)	18	14	0	50,000
Van Leunen's Cincinnati, Ohio	75	75	0.0	7	7	7	75,000
Maxway[14] Sanford, N.C.	59	88	(33.0)	72	50	44	19,000
Apex Pawtucket, R.I.	55	45	22.2	3	3	3	130,000
Kingsway Detroit, Mich.	50	50	0.0	3	3	3	100,000
Goldblatt Department Stores Chicago, Ill.	48	45	6.7	10	10	12	50,000
Magic Mart Bluefield, Va.	40	40	0.0	13	15	16	40,000
Total:	$81,033	$73,390	10.4%	7,163	7,343	7,746	

Source: DSN research

Top Full-Line Chains Garner 10% Sales Gain

The so-called "expert analysts" keep saying that the discount department store industry is disappearing.

Tell that to Wal-Mart, Target, Ames, Fred Meyer, Hills, ShopKo, Value City, Fishers Big Wheel, Bi-Mart, Rich's, Yellow Front, Grandpa Pidgeons, Stein Mart, The Andersons, Apex, and other top full-line discount store chains that racked up double-digit sales gains in 1988.

In fact, despite a spate of bankruptcy filings and dissolutions affecting about a half-dozen full-line discounters and a year-long slump in women's apparel sales, the top 53 chains achieved more than $81 billion in sales last year, a 10.4 percent increase over 1987.

The top 53 chains listed here accounted for about 93 percent of the estimated $86.7 billion in business that *Discount Store News* attributes to the full-line discount segment of retailing. Since that total figure represents just a 2.1 percent increase over 1987, it's apparent that the larger chains—in this case, those doing at least $40 million in annual volume—are far outpacing smaller chains and independents in sales growth. This trend is expected to continue.

Store count growth among the top chains, while substantial in view of an overstored U.S. market, lagged behind sales growth. The top 53 chains opened 180 net new stores last year for a total of 7,343. That's a 2.5 percent increase over the 7,163 stores these chains operated the previous year. Apparently, sales gains are being driven by the opening of larger, higher volume stores.

And, even with competitors literally across the street from one another in many areas of the country, the top discounters expect to open at least 400 net new stores this year, a 5.4 percent increase.

Some highlights among the chains:

- K mart, Troy, Mich., retained its top spot among full-line discount store chains with nearly $23 billion in revenues from its discount stores. However, its 3.1 percent sales gain has to be viewed as disappointing in light of the aggressive new marketing efforts the company put into place last year. And, with sales off to a slow start this year, K mart will be more dependent than ever on productivity gains it hopes to reap from its billion-dollar investment in new technology.
- Wal-Mart, Bentonville, Ark., continues to cast its shadow on an increasing share of the U.S. retail scene. Even excluding its fast-growing $3 billion-plus Sam's Wholesale Club division, Wal-Mart discount stores recorded a 27 percent sales gain on a net increase of 145 stores.
- Target, Minneapolis, Minn., gobbled up a good portion of the Gold Circle chain last year, bringing the upscale discounter into new Southeast markets. Its 19.3 percent sales gain last year does not include those former Gold Circle units since they were not reopened as Targets until 1989. Those new units, plus its continued expansion in California, the Pacific Northwest and several Midwest markets, like Detroit, will push Target well over the $7 billion sales mark in 1989.
- Montgomery Ward, Chicago, is included with the full-line discounters for the first time based on its shift to an everyday low price/specialty store-within-a-store strategy. Ward is hoping greater productivity from superstore departments like Electric Avenue (CE and appliances) and Home Ideas (home furnishings) will help sales grow faster than the 3.1 percent increase seen in 1988.
- Ames, Rocky Hill, Conn., with its acquisition of nearly 400 Zayre discount stores, actually upstaged Target's and Hill's absorption of Gold Circle. Even excluding the approximate $1 billion in sales contributed by the Zayre division in the fourth quarter, Ames would have registered a sales increase of about 12 percent. With the new Zayre stores buttressing total Ames/Zayre store count to more than 850 units this year, the discounter could hit $7 billion in sales in 1989.

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[1] K mart includes discount stores only.

[2] Wal-Mart includes discount stores and SuperCenters.

[3] Montgomery Ward is included for first time based on the retailer's shift to an everyday low price/specialty store-within-a-store strategy in 1987.

[4] Ames' 1988 sales include $1.05 billion of Zayre discount store sales in the fourth quarter; store counts include Zayre acquisition in 1988.

[5] Zayre's 1988 sales are estimated through third quarter. Discount stores were acquired by Ames in September 1988.

[6] Smitty's figures exclude three food-only stores.

[7] ALCO is in Chapter 11.

[8] Heck's is in Chapter 11.

[9] TSS sales include 17 Finders Keepers off-price apparel stores.

[10] Harts includes four Big Bear Plus units but excludes Big Bear supermarket chain; figures are for fiscal year ended Aug. 27, 1988.

[11] Gee Bee is a division of Glosser Bros., in Chapter 11.

[12] Laneco includes combo stores only; excludes supermarkets and two full-price department stores.

[13] Mars is in liquidation July 1989.

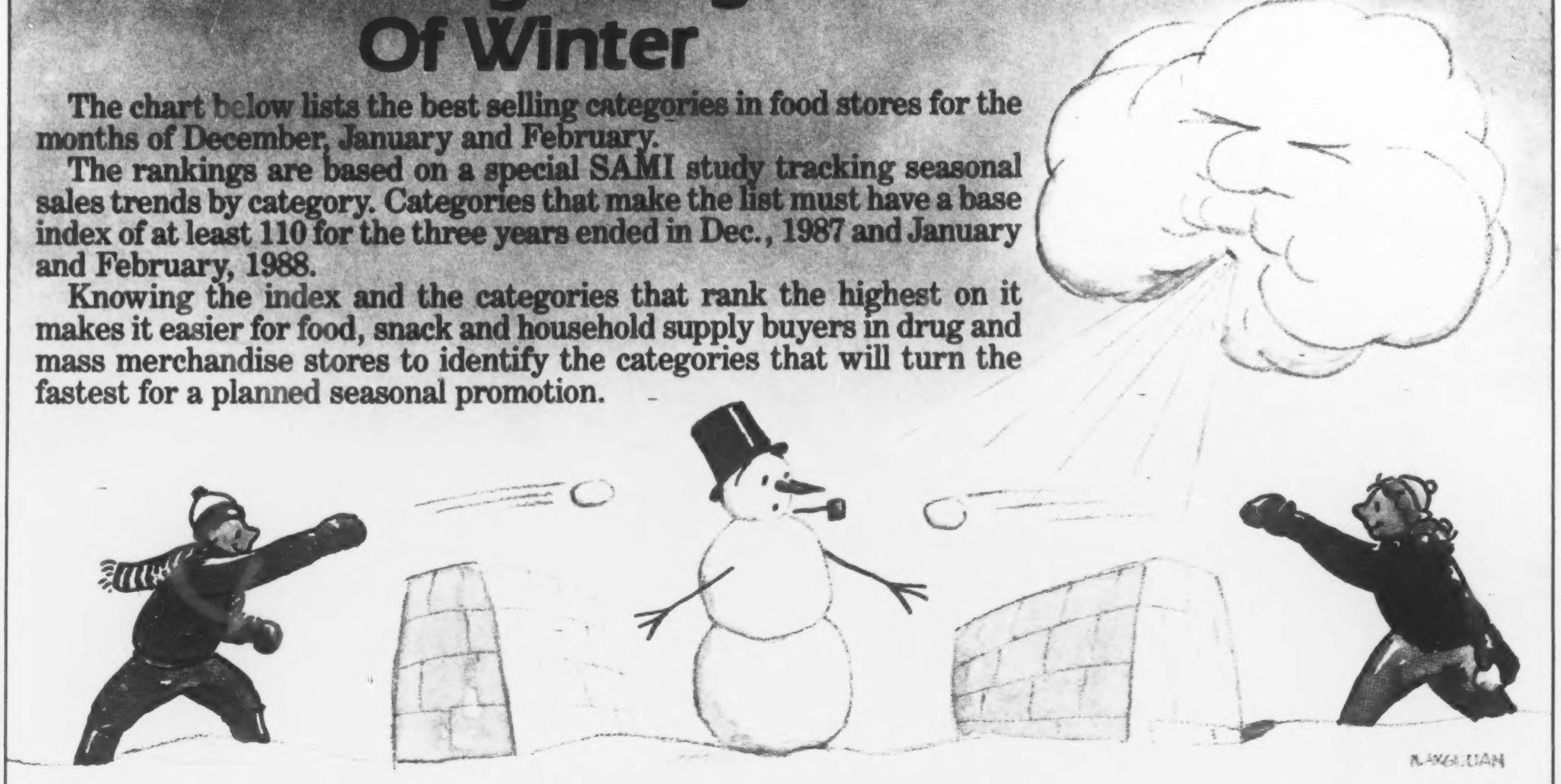
[14] Maxway is in Chapter 11.

Best Selling Categories Of Winter

The chart below lists the best selling categories in food stores for the months of December, January and February.

The rankings are based on a special SAMI study tracking seasonal sales trends by category. Categories that make the list must have a base index of at least 110 for the three years ended in Dec., 1987 and January and February, 1988.

Knowing the index and the categories that rank the highest on it makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.



Foods and Groceries: Best Sellers Of Winter

(Average three year index ranking)

December

Foods	Index Ranking
Canned cranberries	391
Novelty candies	322
Baking nuts	267
Dates	261
Canned onions	248
Packaged chocolate covered fruits	242
Canned potatoes	221
Corn syrup	218
Pie crust mix	215
Brown sugar	205
Stuffing mixes	202
Chocolate creams	201
Solid chocolate pieces	200
Marashino cherries	198
Dry yeast	191
Canned pie filling	186
Coconut	185
Sterilized milk	183
Baking chocolate	182
Packaged hard candies	180
Croutons	179
Confectioner's sugar	176
Ripe olives	174
Cider	167
Molasses	165
Spanish olives	162
Nonfoods	
Heatable bags & wraps	292
Fireplace logs/bricks	251
Rock salt	176
Disposable containers	170
Coffee makers	153
Rodenticides	144
Flash bulbs	135
Batteries	132
Oven cleaners	126
Aluminum foil	126

January

Foods	Index Ranking
Dates	259
Maraschino cherries	252
Cake decorations	239
Coconut	210
Corn syrup	206
Molasses	202
Baking extracts	199
Cream of tartar	191
Canned meats	191
Confectioner's sugar	181
Baking nuts	180
Cake flour	180
Brown sugar	173
Marshmallows	166
Ripe olives	162
Spanish olives	161
Chili sauce	160
Canned onions	158
Cider	157
Canned dry beef	151
Canned sauerkraut	147
Canned cherries	145
Cocktail mixes	146
Canned shrimp	142
Dried apricots	141
Nonfoods	
Fireplace logs/bricks	325
Rock salt	297
Flash bulbs	211
Batteries	153
Heatable bags/wraps	148
Disposable containers	143
Waxed paper	143
Coffee makers	129
Plastic flatware	119
Poly wrap	113

February

Foods	Index Ranking
Packaged nonchocolates	215
Packaged jellies	207
Packaged solid chocolates	201
Tartar sauce	171
Packaged other chocolates	164
Canned salmon	146
Diet desserts	140
Canned pie filling	137
Packaged novelty items	136
Canned cherries	134
Diet canned fruits	131
Dry frosting mix single layer	130
Chocolate covered creams	130
Oriental foods	129
Hot cereals	127
Double layer frosting mix	126
Bouillon	126
Canned apricots	124
Canned spinach	123
Canned mixed vegetables	123
Dried prunes	122
Dehydrated soups	122
Milk modifiers	121
Canned pears	121
Canned tomatoes	121
Honey	120
Canned soup	120
Nonfoods	
Rock salt	169
Fireplace logs/bricks	114
Facial tissues	114
Bath additives	114
Light bulbs	112
Shoe polish	110

Source: SAMI Seasonality Study

F.M. SPECIAL REPORT

Membership Club 1989 Sales May Soar 29% to $18 billion

Growth is coming from both new stores and sales increases in existing stores. Top four companies now generate 80% of all sales.

Shoppers in The Wholesale Club often buy pallets of groceries at any given time. Often they resell the product.

The top ten chains in the membership warehouse club industry altogether generated close to $13.7 billion in sales last year, the equivalent of about 96% of total membership club sales. Sales this year are expected to increase another 29% to $18 billion.

In 1988, the trend to consolidation within this industry accelerated, and the year ended with the top four companies controlling about 80% of all sales.

Most of the new stores opened in 1988 were owned by the top four chains. Together, these giants accounted for 81% of all new store openings, according to *FM's* sister publication, *Discount Store News*.

In 1989, *DSN* is estimating that at least 70 more warehouse clubs will open and the top four will be responsible for at least 50 of those stores, or about 71% of all new store openings.

Membership Warehouse Clubs: Sales and Unit Growth

Year	Sales (billions)	Units
1984	$ 2.4	79
1985	4.5	137
1986	8.2	228
1987	10.7	325
1988	14.2	352
1989	18.0	420

Source: Discount Store News

Wholesale or membership warehouse club stores are extremely expensive to open, and must generate millions of dollars in sales before they can break even.

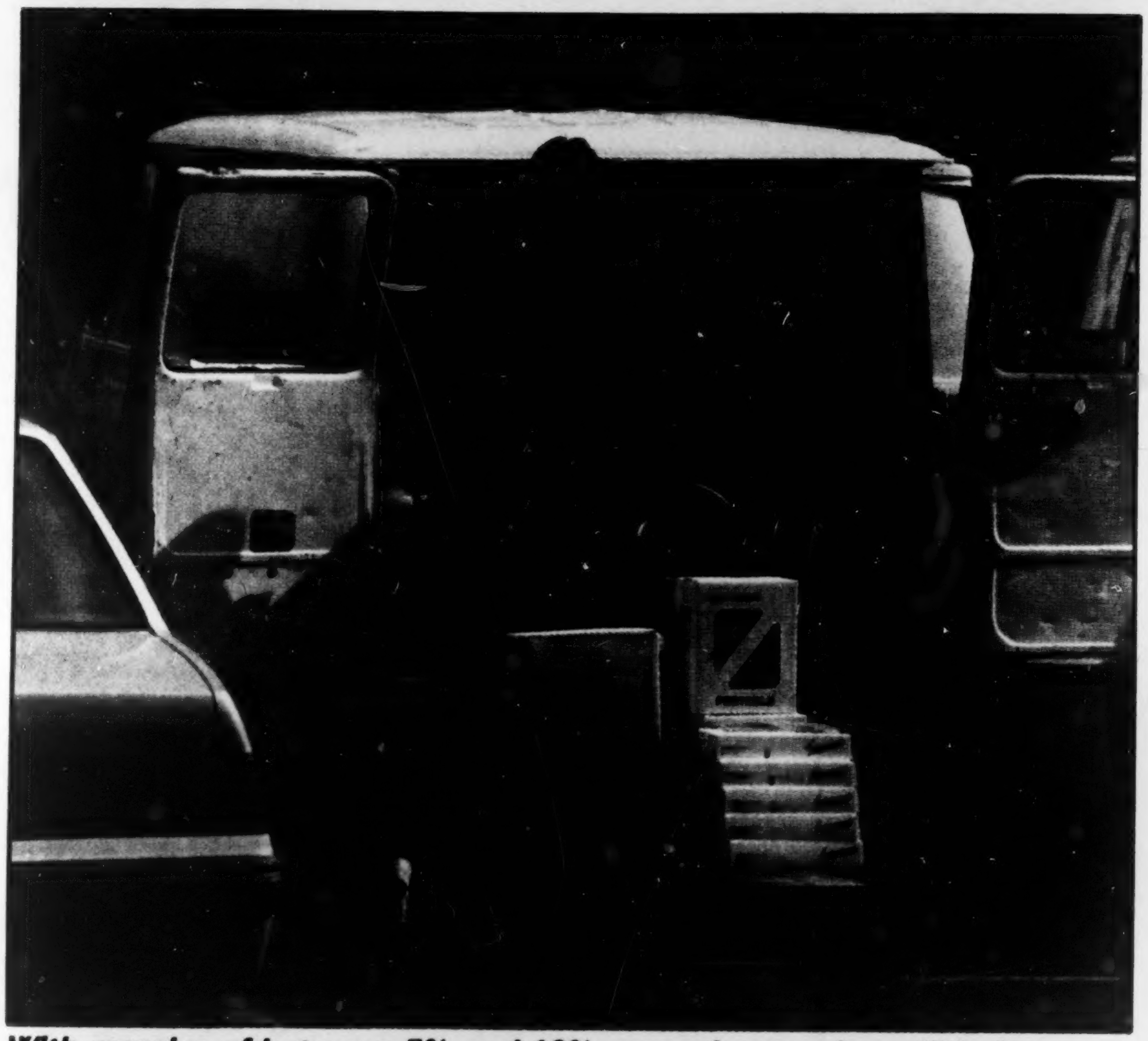
Consequently, the older chains like Price Club, which pioneered the industry back in the early 70's, are in the best position to expand, especially since they have the sales and stores in place to affect additional economies of scale with each new opening.

Sam's, the industry's second largest chain in terms of dollar volume, also has the considerable resources of parent Wal-Mart behind it, and wih 105 stores in place at the end of 1988, Wal-Mart has proven itself the most aggressive as well as the most successful at opening new stores. Management says they will open an additional 22 stores by the end of this year.

The trend is to stay efficient

In 1988, most of the operational changes in this industry were minimal. Company executives continue to fine tune their mix to weed out slow turners, and to expand the assortment of basic merchandise that would appeal to the broadest possible base of consumers.

Office supply warehouse stores,



With margins of between 7% and 10%, groceries turn incredibly fast.

Who's Who In Membership Warehouse Clubs
(Top 10 chains by dollar volume: millions)

Chain/Company HQ	1988 sales	% chng	1988 units	% chng
1. Price Club, San Diego	$4,053	25.2%	41	11%
2. Sam's Wholesale Club, Bentonville, Ark.	3.900E	44	105	25
3. Costco, Seattle, Wash.	1,989	45	50	16
4. Pace, Aurora, Ca.	1,285E	37	39	22
5. BJ's Wholesale Club, Natick, Mass.	800E	38	22	16
6. Price Savers, Salt Lake City, Utah	550E	83	13	13
7. The Wholesale Club, Indianapolis, Ind.	402	48	18	20
8. Makro, Cincinnati, Oh.	375E	25	6	50
9. Warehouse Club, Niles, Ill.	249.1	9	12	0
10. Buyer's Club, Englewood, Colo.	100E	0	4	0

Source: Discount Store News

however, did emerge as a major sub segment of this industry, and some sources say that in time they could start to cannibalize membership warehouse club sales.

However, office supplies only account for between 5% and 7% of all warehouse club store sales, according to *DSN*. Many executives say they can maintain this mix because they can offer customers more convenience, broader assortments and more accessible stores. They also feel that they can remain highly price-competitive.

Once again this year, the profile of a typical membership warehouse club store remains unchanged. Basically the mix in these stores includes a wide variety of edible and general merchandise products, ranging from select assortments of frozen food and packaged groceries to clothing, electronic goods, cleaning supplies, automotives, and more.

The customer base is still primarily small business, professional groups, churches and non-profit organizations, plus off-the-street customers who can qualify for membership.

Some units like a Price Club can do close to a billion a year in sales while others average $25 to $30 million a year. Mark-ups are also low enough to keep margins under 10% overall and the average inventory per store seldom exceeds 4,000 sku's.

What's ahead for 1989 and beyond

The outlook for the industry is still bright. Most security analysts who follow this fast growing industry expect sales and store increases to continue to soar.

Expansion is usually a matter of clustering stores in carefully selected metropolitan areas.

With the possible exception of Sam's, and even this is highly debatable, most companies in this industry regard long term success as a function of store level sales and market dominance rather than geographic expansion for the mere sake of geographic expansion.

Groceries: key product category

Groceries play a key role in all membership warehouse club sales. In these stores, they are not a mere traffic builder or a simple convenience commodity item.

They are integral parts of the merchandise mix, selling strongly to small restaurant operators, Mom and Pop grocery store operators, offices and clinics as well as to the general public.

They are usually merchandised close to the front of the store and off to the side, sometimes accounting for 30% and 50% of total floor space.

Generally, they are purchased on deal directly from the manufacturer. To be merchandised, they are often shrink-wrapped and/or stacked out on pallets. Most customers buy either in case or multiple-quantities.

In 1989, *FM* is estimating that groceries will increase another 20% to about $8.6 billion in this trade class. At that point, they will account for about 51% of all membership warehouse club sales.

Sales Top $7B as Recovery Continues

Catalog showroom chains will continue the rebound started last year, spurred by both the sustained growth of industry leader Service Merchandise and strong performances by several regional companies.

However, the industry's improving fortunes—a turnaround from just two years ago when total volume actually declined—don't change a basic fact: two chains, Service Merchandise and Best Products, still dominate the showroom business. The only national catalogers, the two chains accounted for about 72 percent of the industry's volume last year, three percentage points higher than their approximately 69 percent share in 1987.

At the same time, the industry's top 30 chains continue to account for almost all the nation's showroom volume. The top 30's share went from about 97 percent in 1987 to almost 99 percent last year, reflecting both these catalogers' sales gains and the shutting of small one-and-two store operations. Only one new firm entered the industry, Hugh Wilson Partnership, and its first five units are recycled showrooms.

Jewelry at Save-Rite, Raynham, Mass.: The trend among catalogers to position higher-margin jewelry offerings as their core department became more pronounced last year. (DSN photo)

The industry's sales this year are expected to reach $7.4 billion, a 2.8 percent increase from 1988's volume of just over $7.2 billion.

While catalogers are striving to boost their volume from all merchandise areas, a growing number of chains are increasing their focus on jewelry, the industry's highest profit category.

Service Merchandise and Best already proclaim they are among the nation's leading jewelers and their operations include jewelry and giftware specialty stores besides showrooms. Service Merchandise runs three Zimm's and is expected to unveil more; Best operates 35 Best Jewelry specialty units and the revamping of the chain's basic showroom business planned by its new owners, Adler & Shaykin, will position jewelry as the core department augmented by related higher-margin giftware and leisure sections like dinnerware/tabletop and higher-end consumer electronics.

David Weis, apart from its 17 traditional showrooms, operates 10 jewelry specialty stores. It has retained the Jewelmart logo for the four stores the company acquired two years ago in Ohio because of the high recognition of that name and the units' jewelry-oriented merchandising. Another Jewelmart is set to open later this year.

K's Merchandise opened 10 Eldridge's jewelry specialty store during the past year and a half, five in Kansas City, Mo., and five in Florida, while L. Luria & Son last year unveiled the first Luria's Fine Jewelry in Miami and plans additional units this year.

Dahlkemper's expects to open its first Dahlkemper's Fine Jewelry and Gifts later this year as it leverages its showroom jewelry business into specialty retailing.

The industry's stepped-up focus on jewelry as the key profit producing category hasn't lessened the overall drive to open more traditional showrooms to boost volume.

The top 30 catalogers project a net gain of 33 showrooms to 930 stores from 897 units. These chains accounted for about 82 percent of the nation's approximate 1,100 showrooms last year.

Service Merchandise alone will account for about half of the showrooms to be added this year by the top 30 chains. That chain projects adding at least 18 units to boost its industry leading total to 335 stores, almost 36 percent of the top 30 catalogers' total number of showrooms. Last year Service Merchandise accounted for 35.3 percent of the top 30's count.

Two chains haven't participated in the industry's overall upswing. Best's sales remained flat as its new owner plans a business revamping that will invigorate volume while generating the high cash flow needed to pay for the leveraged buyout.

Jewelcor has closed about half its showrooms—citing losses at these units and/or real estate offers that made it profitable to lease or sell the sites. But Jewelcor, which is also parent of the Jewelcor Merchandising coordinator group, insists it's still committed to the catalog industry and said it planned to open new showrooms.

Service and Best Still Dominate Industry With About 72% of Catalogers' Total Volume

Top Catalog Showroom Chains

Chain (Coordinator)	**Sales** (In Millions)		**Percent Change**	**Number of Stores**		
	1988	**1987**		**1/88**	**1/89**	**Proj. 1/90**
Service Merchandise Nashville, Tenn. (Independent)	$3,093	$2,719	13.8%	309	317	335
Best Products[1] Richmond, Va. (Independent)	2,088	2,067	1.0	194	194	194
Consumers Distributing Edison, N.J. (Independent)	300	252	19.0	88	88	89
Brendles Elkin, N.C. (MAI)	261	228	14.5	42	40	46
L. Luria & Son Miami Lakes, Fla. (Independent)	216	205	5.4	43	47	49
K's Merchandise Decatur, Ill. (Paul Schultz)	165	147	12.2	11	11	12
David Weis Monroeville, Pa. (MAI)	130	125	4.0	17	17	18
Dahlkemper's Erie, Pa. (Paul Schultz)	80	70	14.3	9	8	9
W. Bell[2] Rockville, Md. (Independent)	79	117	(32.5)	18	18	19
The Present Co. Rochester, N.Y. (MAI)	77	66	16.7	21	24	25
Sterling Jewelry Dallas, Texas (Paul Schultz)	75	75	0.0	5	5	5
Evans Rockville, Md. (MAI)	72	55	30.9	6	9	12
Witmark Grand Rapids, Mich. (MAI)	53	50	6.0	8	8	9
Jewelcor[3] Wilkes Barre, Pa. (Jewelcor Merchandising)	47	112	(58.0)	15	9	6
E.H. Tepe South Bend, Ind. (Paul Schultz)	46	45	2.2	10	10	10
Arthur's Jewelers Plainfield, N.J. (MAI)	43	40	7.5	6	7	8
Folands Livonia, Mich. (Paul Schultz)	40	38	5.3	6	6	6
Save-Rite Woonsocket, R.I. (MAI)	39	33	18.2	5	7	7
Goldbro Jewelers Birmingham, Ala. (Associated Charter)	39	35	11.4	8	8	9
Wilbro Dothan, Ala. (Associated Charter)	33	27	22.2	6	9	9
US Merchandise Cleveland, Ohio (Associated Charter)	30	25	20.0	5	6	6
Fred P. Gattas Memphis, Tenn. (MAI)	28	28	0.0	6	6	6
Brand Names Tonawanda, N.Y. (Independent)	25	25	0.0	15	15	15
Wes Freedman Scranton, Pa. (Associated Charter)	20	20	0.0	5	5	4
Prime Value Mart Fitchburg, Mass. (MAI)	19	17	11.8	3	4	4
Murray's Warwick, R.I. (Paul Schultz)	18	18	0.0	3	3	3
Paysaver Jewelers Holyoke, Mass. (Jewelcor Merchandising)	17	17	0.0	5	4	3
WR Blair Waldorf, Md. (Paul Schultz)	16	16	0.0	4	4	5
Value House Albuquerque, N.M. (Associated Charter)	15	15	0.0	5	5	5
Stroud's Wilkes Barre, Pa. (Paul Schultz)	15	15	0.0	3	3	3
Total:	$7,179	$6,702	7.1%	881	897	930

[1] *Best Products was acquired in a leveraged buyout by Adler & Shaykin in November 1988.*

[2] *W. Bell 1988 sales are for a seven-month fiscal year following the change to a January ending date from June.*

[3] *Jewelcor Merchandising was acquired in a leveraged buyout by S.H. Holdings in April 1988.*

Source: DSN research

Industry Reaps Higher Sales, Earnings

Top Off-Price Apparel Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Marshalls Wakefield, Mass.	$1,753	$1,603	9.4%	286	309	335	28,000
T.J. Maxx Framingham, Mass.	1,490	1,288	15.7	265	308	358	20,000
Burlington Coat Burlington, N.J.	639	523	22.2	111	134	150	50,000
Ross Stores Newark, Calif.	634	576	10.1	131	140	158	25,000
Hit or Miss Framingham, Mass.	370	348	6.3	485	506	551	3,600
Kids "R" Us Rochelle Park, N.J.	355	250	42.0	74	112	137	20,000
Loehmann's Bronx, N.Y.	334	351	(4.8)	76	73	73	15,000
Filene's Basement[1] Wellesley, Mass.	300	278	7.9	22	22	24	25,000
Syms Lyndhurst, N.J.	283	255	11.0	21	22	26	47,000
Dress Barn[2] Stamford, Conn.	204	174	17.2	302	378	440	4,000
Clothestime Anaheim, Calif.	171	179	(4.5)	338	335	335	4,000
NBO Stores Secaucus, N.J.	96	86	11.6	34	NA	NA	8,000
One Price Clothing Stores Duncan, S.C.	64	41	56.1	95	155	215	2,300
S&K Famous Brands Richmond, Va.	52	43	20.9	59	74	99	3,500
50-Off Stores San Antonio, Texas	44	31	41.9	20	28	34	20,000
Total:	$6,789	$6,026	12.7%	2,319	2,596	2,935	

[1] Filene's Basement became a private company in 1988.
[2] Dress Barn sales are for fiscal year ended July 30, 1988.
NA—not available

Source: DSN research

Emerging from women's apparel sales doldrums about halfway through 1988, most off-price specialty apparel chains ended the year in high gear and have recorded strong numbers in early 1989.

While the rebound of women's apparel—especially for last holiday—certainly helped the top 15 off-pricers post an impressive 12.7 percent collective increase in sales over 1987, off-pricers were never adversely affected by the slump as much as fashion-sensitive stores like The Limited and The Gap.

Off-pricers, as a group, continue to be a major specialty force. The push by many of the savvier general merchandise discounters toward more apparel upscaling—everything from shop-within-store concepts to a greater emphasis on brands—is, in part, a reaction to the business being done by T.J. Maxx, Marshalls, Kids "R" Us and others, who sell nationally recognized brands/labels at 40 percent to 50 percent off regular department store prices.

Top 15's Sales Top $6.7B

The top 15 off-pricers notched just under $6.8 billion in sales, while the entire off-price industry posted an estimated $10.5 billion in sales last year. In addition to snappy sales increases, most off-pricers saw profitability rise in 1988 as well.

While TJX Cos. doesn't break out earnings figures for T.J. Maxx, Hit or Miss or Chadwick's (the cataloger), the company as a whole saw operating income jump by 20.1 percent to $142 million.

With Zayre Corp. officially changing its name to The TJX Cos., Inc., the net result has been an infusion of cash and the addition of certain facilities and equipment for TJX, which will inevitably lead to greater growth for T.J. Maxx and Hit or Miss.

T.J. Maxx has been the most consistently successful off-price apparel specialty chain over the past five years. During that time, T.J. Maxx added 190 new stores and no T.J. Maxx store was ever closed other than in connection with a relocation within the same market.

The chain has begun experimenting with smaller, more sharply focused units in certain smaller markets, having opened four last year.

At $1.75 billion in sales, Marshalls remains the No. 1 off-price apparel chain. And while its performance is far better than in 1985 and 1986, Marshalls is not recording T.J. Maxx-type numbers.

Marshalls comparable store sales increased by just 2.3 percent last year, compared to a 6.5 percent increase in 1987. T.J. Maxx posted double digit comparable stores sales gains last year.

Marshalls revealed plans to upscale the entire chain by 20 units per year early last year. The new prototype, which opened last spring, features a more "departmentalized approach," or a more pronounced differentiation between categories like petite, big and tall, and maternity.

While T.J. experiments with smaller formats, Marshalls is going ahead with its new "superstore" concept. Marshalls purchased the 10-unit Branden's home furnishings chain and is planning to reopen more than half of them later this year. They will feature expanded apparel departments and categories.

Burlington Coat continues to aggressively add stores and post strong year-to-year sales gains. The company, however, was outbid last month by Schottenstein for five Dry Goods units.

Kids "R" Us has become the dominant player in off-price infants, toddlers and children's wear. The chain, a division of Toys "R" Us, has practically doubled its number of units over the past two years and has more than doubled its estimated net sales during the same period.

Clothestime, the Anaheim, Calif.-based off-pricer, has spent the last year refocusing its merchandising strategy. After years of steady growth, Clothestime's sales dropped 4 percent in 1988 to $171.5 million, while net income before taxes fell 141.9 percent to a $4.84 million loss.

Looking to grab a larger customer base, the chain is now gearing its merchandise to the 14-to-35 year-old female instead of the 14-to-25 age group it previously went after. To help promote the change, Clothestime has gone heavily into television advertising and first quarter results this year showed the chain posting increased sales and positive income.

Likewise, Ross Stores, which has spent the last few years sharpening its image, is also showing improvement. For 1988, the off-pricer's sales rose 10 percent to $634 million, while earnings before taxes nearly doubled, going from $18.9 million to $36.97 million.

The chain attributes its enhanced showing to improved inventory control, that has allowed for a cutback on clearance merchandise; full-year contribution by the company's cosmetics and fragrance department; and the heightening of better merchandise segmentation and presentation.

Loehmann's, which has been showing stagnant growth, was sold by May Co. to an investor group last year.

Filene's Basement went private last year in a management led LBO, and NBO Stores was bought by Dylex, a Canadian company.

Kids "R" Us in Brooklyn, N.Y.: The Toys "R" Us subsidiary has become the dominant off-price infants/toddlers/children's apparel chain with its successful formula.

Marshalls remains the top off-price apparel chain, but its year-to-year sales growth has not kept pace with No. 2 T.J. Maxx.

(DSN photos)

Clubs Share Fruits of Rapid Growth

Three different trends will fuel the membership warehouse industry's continued rapid growth this year: expanding services like offering fresh meats and produce, filling in current markets with more stores, and thrusting into the relatively untapped Northeast.

This growth should see membership warehouse sales jump 21.6 percent and reach nearly $17 billion, compared with the $13.9 billion the dozen wholesale clubs that comprise the industry recorded last year.

Almost all the wholesale clubs will share in the industry's surging growth. This achievement reflects the high recognition that membership warehouses have attained among both business and group (consumer) members and the maturing of the over 90 stores opened during the past two years.

However, two chains, Price Club and Sam's, will again spark the industry's growth as they battle for the top spot in sales. Sam's, which is the leading chain in store count with 125 projected units, is expected to finally best Price Club (with 47 projected stores) in sales, due to its larger base of clubs. The Price Club has been the sales leader with just over $4 billion in volume last year, $224 million ahead of Sam's $3.8 billion in revenues.

By any yardstick, these two membership warehouses dominate the industry. The duo's sales last year accounted for 57.5 percent of the industry's total volume, down slightly from their 58.9 percent share in 1987. The store count situation shows them with 44.6 percent of the units in 1987, going up to 46.2 percent last year, but expected to decline slightly to 45.5 percent this year.

Groceries at Costco, Hawthorne, Calif.: Fresh meat and baked goods are illustrative of the new types of goods and services offered by wholesale clubs to their members. (DSN photo)

The two chains' slight comedown in share of stores is due to the planned stepped up expansion of four chains—Costco, Makro, The Wholesale Club and Club Wholesale.

Besides maintaining an overarching presence as the leading membership warehouses, Price Club and Sam's also exemplify the industry's focus on offering more services to members.

Sam's, for example, will be offering such new departments as fresh meat, produce, bakery, optical and a business service center offering printing, copying, fax and express delivery in new clubs this year. Price Club, meanwhile, has moved its lens grinding lab and meat processing operation to larger facilities to handle the opening of more optical centers and expanded offering of fresh meats.

Other wholesale clubs are also proffering expanded services to members. This industrywide effort includes Costco projecting more than half its stores providing fresh meat and products by the end of the year, PACE offering discount telephone, pharmacy and car buying services, and Club Wholesale supplying UPS shipping, fax and delivery services while testing a car wash, bakery and fresh produce in its newest club.

The drive to enhance services is geared to providing members with added reasons to visit a wholesale club, thereby increasing a store's opportunity to sell more goods, and to counter such services as copying and faxing offered by office supply megastores.

Two wholesale clubs should reach milestones this year: Costco should pass the $2 billion sales mark, while BJ's Wholesale Club should reach $1 billion in volume, the fifth membership warehouse club to reach this plateau.

Costco's achievement will come from the maturing of the seven stores opened last year and its projected 12 new units; BJ's Wholesale Club's accomplishment reflects the unveiling of three new stores last year and a commensurate expansion set for 1989.

The two chains, along with all the other wholesale clubs, are situating many of their new stores in their current markets. Price Club, for example, plans to open two more stores in Southern California, where it already has 15 units, and its second units in Tucson, Ariz., Hampton, Va., and Long Island, N.Y. Also, PACE plans to open its fifth store in both the Atlanta and Detroit markets, while Club Wholesale plans to replace its single store in Las Vegas, Nev., with two new units.

The aim of this fill-in expansion is twofold:

- Flesh out coverage of a market so that it's easier and more convenient for business and group members to reach a store from anywhere in the area;
- Develop a strong enough market base to discourage other membership warehouse clubs from invading the area or else requiring potential competitors to make the costly investment of opening a large number of units to establish a meaningful presence.

This expansion effort has had mixed results. Most membership warehouses have gingerly moved into other wholesale clubs' markets, usually major metropolitan areas like Los Angeles, Denver or Tampa/St. Petersburg, Fla., that can support a half dozen or more stores.

As membership warehouses step up their expansion—a situation that reflects their increased cash flow and earnings which helps to fuel new stores—their position has changed: moving into other chains' markets is becoming more common.

Sam's Targets the Midwest

The outstanding example of this new trend has been Sam's, which has been spreading its network of stores from the South Central states and Southeast into the East North Central states: Ohio, Michigan, Indiana and Illinois. It's now battling Makro in Cincinnati and this year will face the Warehouse Club and BJ's Wholesale Club in Chicago and The Wholesale Club in Grand Rapids, Mich.

The next region to witness a battle among a number of membership warehouses is the Northeast, which up to now had been the preserve of 17 of BJ's 22 units, along with three Price Clubs in the metro New York area and a Makro in Philadelphia.

Over the next 30 months, Sam's plans to open over a dozen stores in Pennsylvania and New York, while Makro and Price Club have both targeted the Northeast as growth areas. PACE, meanwhile, is due to open its first store in Philadelphia as it thrusts out of Baltimore/Washington where it already has three units, with more on the way. BJ's strategy is to focus on strengthening its core Northeast presence and it plans to open three more stores in this market.

Top Membership Warehouse Clubs

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Price Club San Diego, Calif.	$ 4,053	$ 3,236	25.2%	37	41	47	100,000
Sam's Bentonville, Ark.	3,829	2,711	41.2	84	105	125	100,000
Costco Kirkland, Wash.	1,989	1,370	45.2	43	50	62	115,000
PACE Aurora, Colo.	1,271	940	35.2	32	39	46	100,000
BJ's Wholesale Club Natick, Mass.	800	575	39.1	19	22	25	100,000
Price Savers Salt Lake City, Utah	600	300	100.0	12	13	16	100,000
The Wholesale Club Indianapolis, Ind.	402	272	47.8	15	18	23	100,000
Makro Cincinnati, Ohio	300	250	20.0	4	6	10	165,000
Warehouse Club Skokie, Ill.	249	228	9.2	12	12	12	100,000
Buyer's Club, Englewood, Colo.	100	100	0.0	4	4	3	100,000
Club Wholesale Meridian, Idaho	65	75	(13.3)	5	5	8	100,000
American Wholesale Richardson, Texas	40	35	14.3	4	1	1	100,000
Total:	$13,698	$10,092	35.7%	271	316	378	

Source: DSN *research*

men's sportswear
makro

Apparel at Makro in Cleveland: Following a different apparel merchandising plan than other clubs, Makro offers a full assortment using fashion fixtures such as circular racks.

Buyout Mania Shows Signs of Ebbing

The acquisition fervor that gripped the automotive aftermarket has cooled since last fall, if for no other reason than the number of independent chains is diminishing rapidly.

The poor experience that Northern Automotive had in acquiring two money-losing chains, Auto Works and Crown, might also have dampened that fervor.

Nonetheless, several smaller chains, some as small as 15 stores, have let it be known that they're available, including Steego Auto Parts, West Palm Beach, Fla. Operating 86 stores in the United States and 79 in Canada, Steego reported 1988 sales of $158 million, including $77 million from U.S. stores.

Yet, Steego has found no takers after three months on the auction block, said an executive for an acquisition-minded chain. Non-disclosure statements bar him from naming other available chains.

In another step to make sure it won't become the target of a takeover attempt, Pep Boys—Manny, Moe & Jack, Philadelphia, strengthened its anti-takeover defenses last month. Pep Boys enhanced the rights that existing stockholders would have to buy Pep Boys stock at bargain prices if a corporate raider made a play for the country's third-largest automotives chain—but probably the most profitable.

Pep Boys reported operating income of $65.9 million for 1988 on sales of $656 million. That compares with operating income of $58.1 million on 1987 sales of $553.7 million.

In sharp contrast, operating income for Northern Automotive, which through acquisition has edged out Pep Boys for the No. 2 ranking in consolidated sales, saw its operating income plunge to $3.6 million in the fiscal year ended Nov. 5, 1988, from $29.2 million a year earlier. Its operating margin slipped in 1988 to 0.5 percent of sales from 6.9 percent, it reported in a 10-K filing with the Securities and Exchange Commission.

Operating income thus fell below the $7.2 million in 1986 on sales of $84.1 million, for an operating margin of 8.1 percent, when it consisted of just the Schuck's chain. Northern acquired the Checker and Kragen chains in December 1986 from Lucky Stores and acquired Auto Works and Crown Auto, both money losers, in early 1988.

However, consolidated sales spurted to $660.1 million in 1988 from $422.2 million a year earlier.

Even worse, the net loss of Northern deteriorated to $58.4 million in 1988 from $10.1 million the year before. The worsening losses stem mainly from increased interest costs of acquiring Auto Works and Crown.

To pare down debt, Northern last year sold its Pay 'n' Save drug and Bi-Mart discount store chains. This January, it sold its Fair Lanes bowling alley operations. Its only remaining non-automotive entity is the Lamonts apparel chain.

The profits plunge apparently cost Dan Siewert his job last fall as head of Northern Automotive. Back in April, Siewert had to call in vendors to reassure them that Northern was sound and would soon get current on payments.

In attempts to turn Northern around, Eddie and Julius Trump, New York investors, lured John Lacey, who headed the retail operations for Molson in Canada.

Their inducements were an unspecified equity interest in Northern, a $250,000 signup bonus, severance pay of as much as $2 million and a five-year contract specifying $300,000 in salary and up to $300,000 more in performance bonuses. In an initial success, Lacey has gotten Northern Automotive current with vendor payments.

Now that Sears has acquired Western Auto, the nation's largest automotive chain, its profits are buried in Sears' overall financial reporting. But in 1987, Western reported $18 million in operating income on sales of $931 million. With estimated sales of $1.1 billion in 1988, Western probably still lags far behind Pep Boys in profitability.

In its first year under Sears' wing, Western Auto added 30 company-owned and Tire America and NTW tire specialty stores for a new total of 424. It plans to add 36 more in 1989. With combined volume from Western Auto and its 824 auto centers, Sears enjoys automotive revenues well in excess of $3 billion.

In another indication of profit stress in automotives, operating income for Trak Auto fell almost in half in 1988 to $4.6 million from $8.3 million in 1987, even though sales rose to $243.1 million from $212 million.

In May, the industry lost a 70-year-old marquee when a creditor in possession of OTASCO, Tulsa, Okla., ordered the chain liquidated. OTASCO declared Chapter 11 bankruptcy last November and closed all 171 of its remaining home and auto stores. It said it was unable to finance Christmas inventory.

This spring, the creditor reopened 63 stores but then gave up for good. OTASCO once operated 600 stores. Sales totaled $139.8 million in its final, partial year.

In further consolidations last year, PACCAR, a heavy truck manufacturer, acquired Grand Auto, Oakland, Calif. in June of 1988, adding 106 stores with 1987 sales of $173 million—and operating losses of $5.7 million — to its base of Al's Auto Supply, a chain of 29 stores with estimated sales of $13 million.

Whitlock, a division of Ward White PLC, a British retail holding group, accounted for another mid-size automotives acquisition last year. The chain paid $35.5 million for the 72 stores of R&S Strauss, Union, N.J. Strauss earned $2.1 million in 1987 on sales of $79.5 million, for a net profit margin of 2.6 percent, compared with Whitlock's margin of 5.8 percent. Strass joins Rose Auto Stores, Hialeah, Fla., in Whitlock's lineup.

In another consolidation, Nationwise, Columbus, Ohio, acquired the 75 stores of Guarantee Auto, also based in Columbus, bumping its store count to 285 as of Jan 1, 1989. Consolidated revenues came to an estimated $262 million.

Top Automotive Specialty Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Western Auto[1] Kansas City, Mo.	$1,107	$ 931	18.9%	394	424	460	7,000
Northern Automotive[2] Phoenix, Ariz.	660	422	56.4	478	869	895	6,000
Pep Boys Philadelphia, Pa.	656	554	18.4	207	243	285	18,000
AutoZone Memphis, Tenn.	440	384	14.6	396	441	501	5,000
Chief Auto Parts Dallas, Texas	312	275	13.5	465	479	507	3,000
Nationwise[3] Columbus, Ohio	262	190	37.9	200	285	300	6,000
Whitlock[4] Des Plaines, Ill.	260	150	73.3	162	252	288	9,000
Trak Auto Landover, Md.	243	212	14.6	245	274	300	6,000
PACCAR[5] Renton, Wash.	190	173	9.8	131	135	145	23,000
Total:	$4,130	$3,291	25.5%	2,678	3,402	3,681	

[1] Western Auto sales include: company-owned units, Tire America and NTW tire stores, and wholesale revenues from supplying associate stores (associate stores are not included in store count).

[2] Northern Automotive includes Schuck's, Checker, Kragen, Auto Works and Crown chains.

[3] Nationwise includes Guarantee Auto ($52 mil. in sales in 1988), acquired in February 1988; its fiscal year ended Nov. 7, 1988.

[4] Whitlock includes R&S Strauss, Whitlock and Rose Auto chains in 1988; excludes R&S Strauss sales of $72 million in 1987.

[5] PACCAR includes Al's Auto Supply and Grand Auto chains.

Source: DSN research

A Western Auto store in Richmond, Va.: Chain expanded rapidly during its first year under Sears' control, boosting store count to a new total of 424 units.

Pep Boys in Atlanta: One of the industry's most profitable chains, Pep Boys recently strengthened its defenses against possible takeover attempts. (DSN photos)

Toy Discounters Report Robust Sales, Earnings

Along with toy manufacturers, toy specialty discounters are showing stronger vital signs in 1989. Sales volume of the top 12 toy specialty chains rose 23 percent in 1988.

But the shadow that Toys "R" Us casts over the rest of the field looms ever larger.

Among the Big Five chains, only Kay-Bee Toys, a subsidiary of Melville, kept pace with TRU in sales growth, 27.9 percent, compared with TRU's 26.3 percent.

Including apparel sales from its Kids "R" Us division, TRU became a $4 billion discounter during 1988. Consolidated revenues rose 27.5 percent from $3.14 billion in 1987, while operating profits gained 23.9 percent to $428.8 million from $345.9 million in 1987. Toy sales alone were an estimated $3.65 billion, up from $2.89 billion in 1987. TRU now operates 358 U.S. toy stores, 52 foreign toy stores and 124 Kids "R" Us apparel stores.

Kay-Bee, with more than 700 stores, now is crowding in on Child World for the No. 2 spot. Sales of Kay-Bee rose to $780 million last year, up from $610 million a year earlier.

In contrast to Kay-Bee's 27.9 percent sales growth rate last year, Child World's sales rose 7.7 percent in 1988, to $807 million from $749 million.

Child World's operating income, though, remained essentially flat at $22.6 million, compared to $22.5 million in 1987. During the year, Child World plans to add 12 more stores on top of 11 last year, for a year end total of 175.

Operating income for the fourth-largest toy retailer, Lionel Leisure, also remained flat at $3,995,000 in 1988, against $3,839,000 the previous year. Sales, however, rose 19.9 percent to $409 million from $341 million.

In a positive sign for the industry, retail operations of Greenman Bros. improved from an operating loss of $4.4 million in 1987 to an operating income of $5 million last year. Retail sales from 322 Circus World and four Playland stores rose to $176.8 million in 1988 from $154.1 million.

Wisconsin Toys has become a major player among retailers. Specializing in the toy closeout niche, its Toy Liquidators and Toys Unlimited chains recorded sales of $26.1 million last year, compared with $9 million in 1987.

Top Toy Specialty Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Toys "R" Us[1] Rochelle Park, N.J.	$3,645	$2,887	26.3%	350	410	467	46,000
Child World[2] Avon, Mass.	807	749	7.7	152	163	175	36,000
Kay-Bee Pittsfield, Mass.	780	610	27.9	676	727	797	3,000
Lionel Leisure[3] Philadelphia, Pa.	409	341	19.9	77	84	94	35,000
Greenman Bros.[4] Farmingdale, N.Y.	177	154	14.9	321	326	338	3,000
K & K Toys Norfolk, Va.	65	55	18.2	109	119	130	3,000
Karl's Toys Long Beach, Calif.	28	26	7.7	28	25	30	5,000
Wisconsin Toys[5] Milwaukee, Wis.	26	9	188.9	24	50	85	6,000
Tons of Toys Wareham, Mass.	25	12	108.3	12	22	28	12,000
Toy King[6] Orlando, Fla.	13	13	0.0	44	20	25	4,000
Hobby Center Toys Holland, Ohio	10	10	0.0	26	25	25	3,000
Toy & Sports Warehouse White Plains, N.Y.	10	8	22.0	5	6	7	17,000
Total:	$5,995	$4,874	23.0%	1,824	1,977	2,201	

[1] Toys "R" Us includes domestic and foreign toy stores only.

[2] Child World includes Child World and Children's Palace chains.

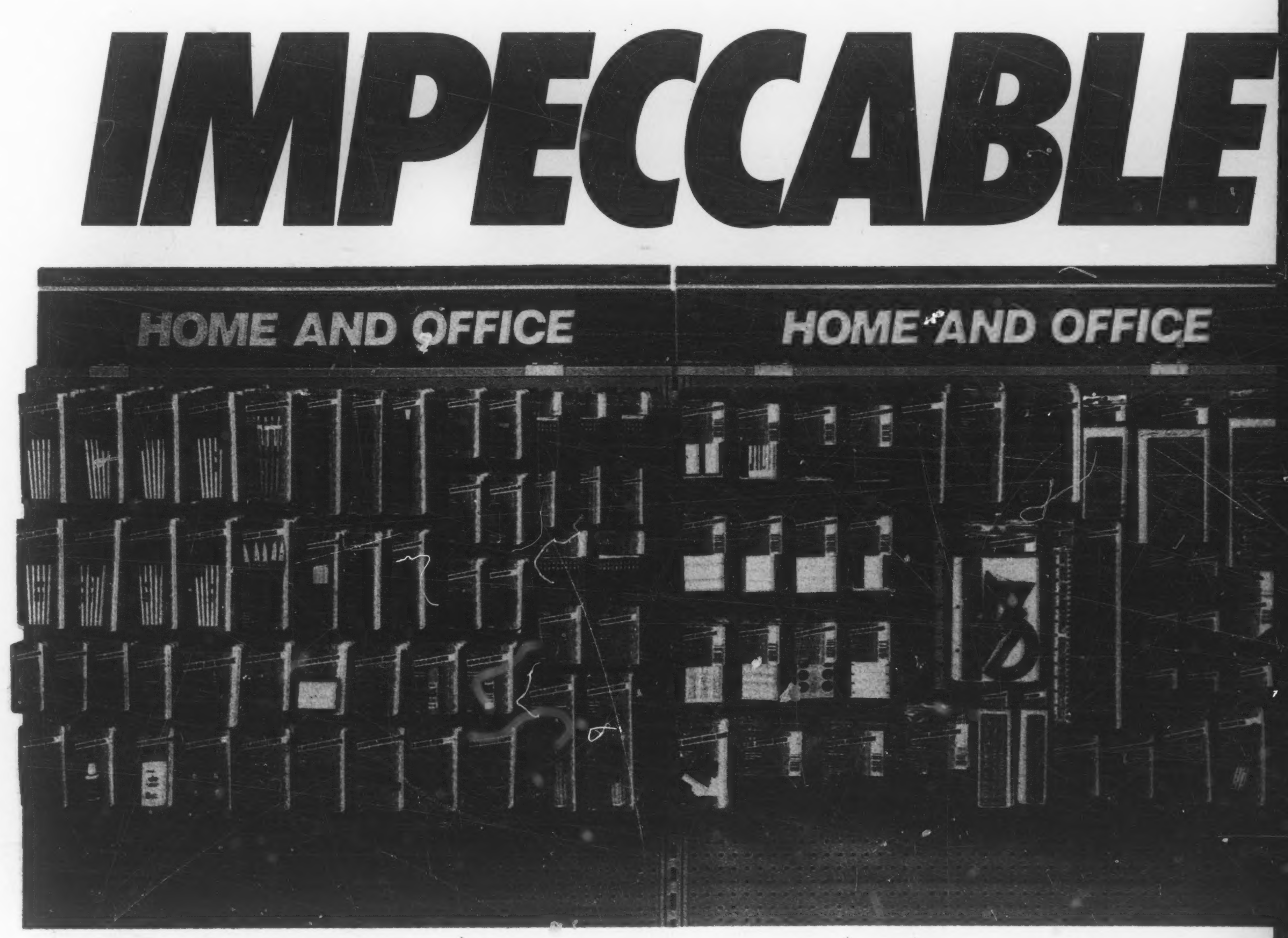
[3] Lionel Leisure includes Kiddie City, Playworld, and Toy Warehouses chains.

[4] Greenman Bros. includes Circus World and Playland chains.

[5] Wisconsin Toys includes Toy Liquidators and Toys Unlimited stores.

[6] Toy King also operates as Toys & Gifts Outlet; emerged from Chapter 11 May 1989.

Source: DSN research



Lineup Changes Highlight Industry Trends

The sporting goods chain roster continues to shift, as Thrifty Corp., holds to its acquisition course, F.W. Woolworth leaps onto the field and megastores ranging up to 50,000 square feet in size begin to catch hold.

Moreover, the future of the nation's largest chain, Herman's, is up in the air as two concerns battle to take over its British parent, Gateway Corp. (formerly Dee Corp.).

During 1988, Thrifty acquired three chains, Cook's, Casey's and Brown's, adding 52 more units. Including 21 new stores of its existing chains, the store count for Thrifty shot up to 233 as of the first of 1989 from 160 a year earlier.

While Thrifty does not break out sporting goods sales from its retail total of $2.4 billion for 1988, a *DSN* estimate puts their sales at $635 million, within shouting distance of Herman's reported sales of $700 million.

Two of three new names in the lineup are Sports Authority, Fort Lauderdale, Fla., and Sports Town, Atlanta. Both operate warehouse-style sporting goods megastores of 50,000 square feet. Sports Authority expects to be operating 10 by year-end, and Sports Town projects 11.

Industry estimates suggest that such megastores could produce volume of $10 million to $15 million at maturity.

In addition, K mart launched its long-awaited Sports Giant sporting goods warehouse club with the opening of two stores this spring in the Detroit market. Both 50,000-square-foot stores offer a full line of apparel, athletic shoes and equipment.

Other advocates of the megastore are Sportsmart, which is building units of 40,000 square feet, and Oshman's, whose new megastore chain, SuperSports USA, is building units of about 30,000 square feet.

In contrast to warehouse-sized stores offering a full line of apparel, shoes and equipment, including bicycles and guns, Herman's is sticking to its game plan of adding 10,000-square-foot stores, offering mainly apparel and shoes with a limited range of equipment.

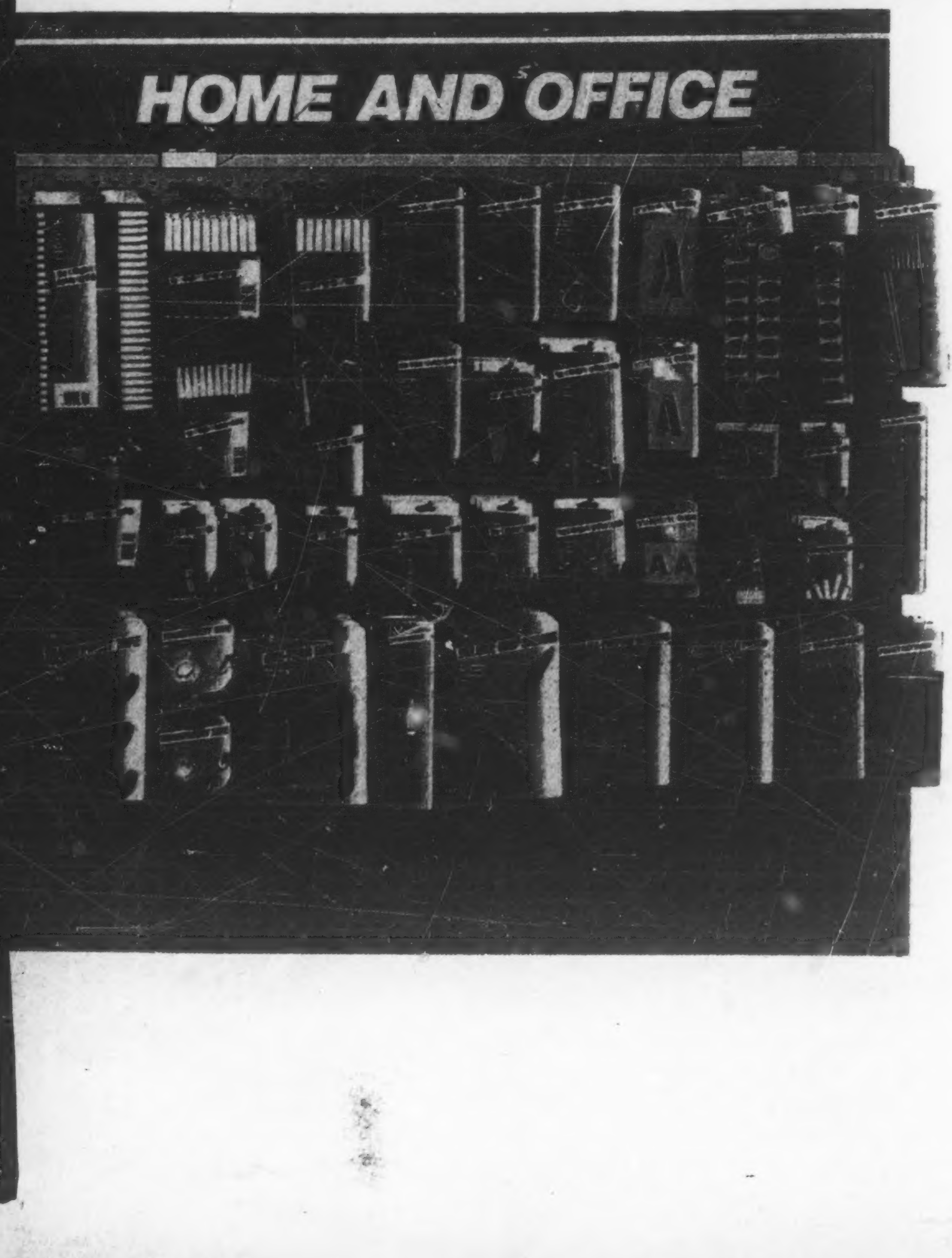
A bankruptcy trustee cut All-American SportsClub from the roster in March when he ordered the chain liquidated. SportsClub already had closed four of its eight pioneering warehouse club units before declaring Chapter 11 bankruptcy last year.

Top Sporting Goods Specialty Chains

	Sales (In Millions)		**Percent**	**Number of Stores**			**Average**
Chain	**1988**	**1987**	**Change**	**1/88**	**1/89**	**Proj. 1/90**	**Store Size** (In Sq. Ft.)
Herman's[1] Carteret, N.J.	$ 700	$ 640	9.4%	242	260	275	10,000
Thrifty Corp[2] Los Angeles, Calif.	635	494	28.5	160	233	262	NA
Oshman's[3] Easton, Texas	305	284	7.4	186	193	200	10,000
Sportmart Niles, Ill.	165	150	10.0	18	21	24	40,000
Champs Sports[4] Bradenton, Fla.	88	43	104.7	43	130	184	5,000
Academy Houston, Texas	82	64	28.1	23	24	27	20,000
Modell's Sporting Goods East Meadow, N.Y.	71	63	12.7	22	28	33	18,000
Sports Authority Fort Lauderdale, Fla.	40	8	400.0	1	4	10	50,000
Sports Town Atlanta, Ga.	20	8	150.0	2	6	11	50,000
Irving's Sport Shops Springfield, Va.	16	15	6.7	18	17	19	4,000
Total:	$2,122	$1,769	20.0%	715	916	1,045	

[1] *Herman's include Sunset Sports chain.*
[2] *Thrifty includes Big 5, MC Sporting Goods, Gart Bros., Browns, Dave Cook's Sporting Goods and Mages chains.*
[3] *Oshman's includes Oshman's Honsport and SuperSports USA chains.*
[4] *Champs is owned by F.W. Woolworth, N.Y.*
NA—not available

Source: DSN *research*



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Chains Brace for Stiffer Competition

The nearly moribund CE industry received a boost at the latest Consumer Electronics Show in Chicago in early June, but two ominous clouds have appeared on the horizon in the past year. They are Brand Central and Electric Avenue, new power formats from Sears and Montgomery Ward, respectively.

Although top national CE chains have said (though not for attribution) that they're not worried about the two giants' entry into the discount CE market, both Brand Central and Electric Avenue seem to have more viability than they've been credited with.

For instance, one major chain dismissed Brand Central as a CE version of Phil Esposito, the former hockey player noted for lurking around the net to pick up easy goals on teammates' rebounds. In this case, the retailer said, Sears planned to pick up the business dropped by JCPenney when the mass merchandiser got out of the CE business a year ago.

Nine months later, this appears to be wishful thinking. Brand Central has established itself in markets where the power format exists, and Sears' buyers maintained a high profile at CES, buying the latest technology in virtually every category. This goes along with Sears' stated philosophy, which combines a more aggressive pricing strategy along with national brands, deep selection, and limited exclusivity of some products. Coupled with the firm's powerful image and credit card, this strategy is aimed at appealing to more mature (and wealthier) consumers, who on one hand want the latest in electronics, but on the other might be turned off by the youth-oriented presentation (including near-customary bargaining) of many national chains.

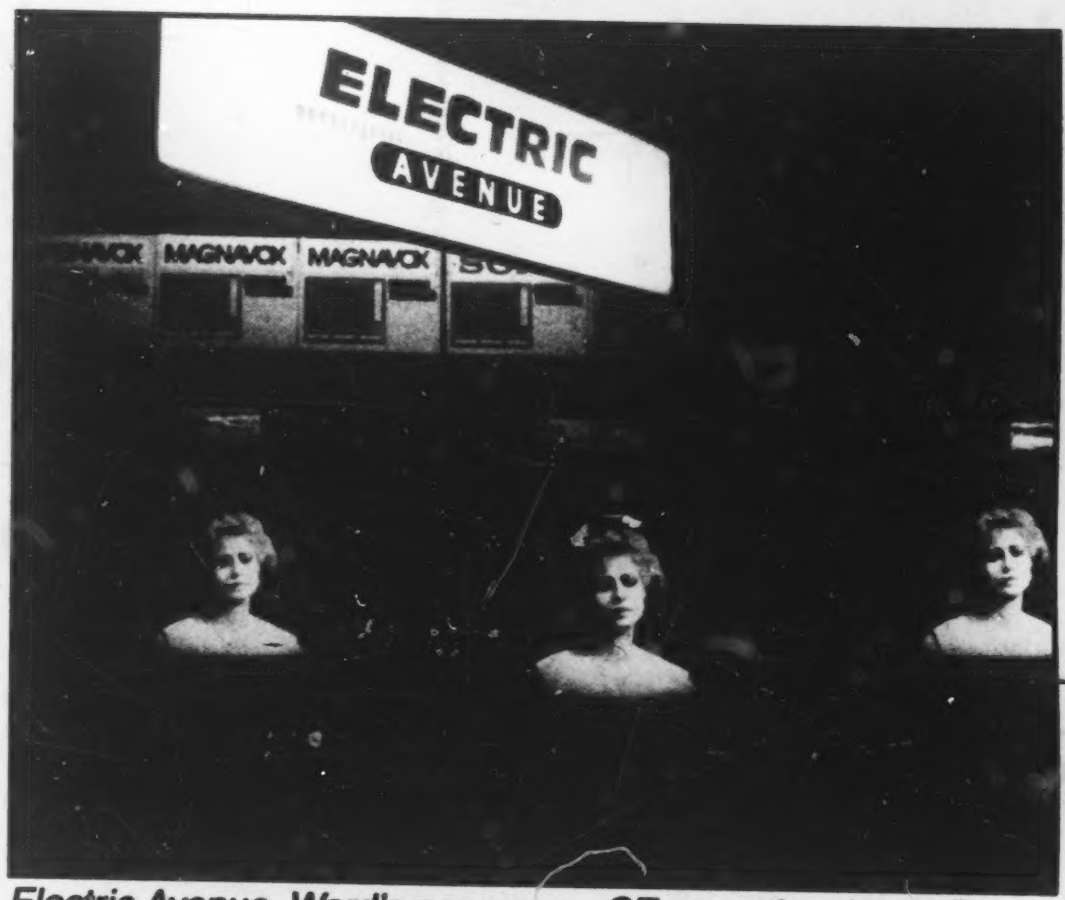
Electric Avenue also seems to have struck a chord with consumers, although its approach is much more price-oriented than is the case at Brand Central. Again, the strategy appears to involve attracting more mature consumers by eliminating some of the more high-pressure strategies prevalent at some CE chains.

Together, these two formats should have a far-reaching impact on an industry that has been in the doldrums as of late. The magnitude of their impact on the CE chains is exemplified by Sears plans to have some 800 Brand Centrals in operation by the end of next year. In comparison, the largest CE chain in store count is Silo, with a projected 227 units by the end of this year.

Further, the proliferation of office product superstore chains like BizMart and Office Depot will threaten the CE chains' ability to expand their home office selections.

And finally, it was apparent at CES that many traditional general merchandise discount chains are looking at expanding their offerings in component audio, higher priced video and home office, leading to even more pressure on the specialists.

Partly as a result of these factors, the past year has seen plunging margins, store closings, declining same store sales, and failures and near failures of some of the nation's top CE chains. The Federated Group was, to all intents and purposes, written off by parent Atari Corp. in the fourth quarter last year, and metro New York power Crazy Eddie, an innovator of the "beat any price" strategy, closed 17 stores in 1989 and now totters on the edge of bankruptcy.



Electric Avenue, Ward's new power CE operation, is rapidly upscaling its product presentation while sharpening its prices.

Top Consumer Electronics Specialty Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores			Average Store Size (In Sq. Ft.)
	1988	1987		1/88	1/89	Proj. 1/90	
Circuit City Richmond, Va.	$ 1,721	$1,350	27.5%	105	125	145	32,000
Highland Superstores Taylor, Mich.	911	753	21.0	72	84	97	24,000
Silo Philadelphia, Pa.	815	650	25.4	150	210	227	10,000
Best Buy Minneapolis, Minn.	507	439	15.5	40	41	51	25,000
Tops Appliances Edison, N.J.	320	284	12.7	2	2	3	50,000
Crazy Eddie Edison, N.J.	253	317	(20.2)	42	43	25	10,000
The Federated Group Sunnyvale, Calif.	253	437	(42.1)	65	61	0	30,000
Newmark & Lewis Hicksville, N.Y.	238	242	(1.7)	46	52	57	9,000
American TV Madison, Wis.	235	199	18.1	6	7	7	80,000
The Wiz New York, N.Y.	235	218	7.8	24	26	28	12,000
Fretter Livonia, Mich.	231	250	(7.6)	47	54	60	12,000
Audio-Video Affiliates Dayton, Ohio	196	212	(7.5)	114	125	130	10,000
Wall to Wall Sound & Video Cinnaminson, N.J.	152	132	15.2	107	107	107	8,000
The Good Guys[1] San Francisco, Calif.	149	120	24.2	15	18	22	15,000
Trader Horn Hasbrouck Heights, N.J.	140	140	0.0	15	16	16	8,000
Luskins Baltimore, Md.	123	127	(3.1)	44	45	46	9,000
Brick Church Orange, N.J.	100	100	0.0	22	40	40	15,000
Fred Schmid Denver, Colo.	100	93	7.5	17	19	16	12,000
Total:	$6,679	$6,063	10.2%	933	1,075	1,077	

[1] The Good Guys fiscal year ended Sept. 30, 1988.

Source: DSN research

Smaller local chains were notable by their absence at the latest CES in June, and it appears that the industry is headed for an extended shakeout period that could result in a handful of majors like Circuit City and Silo dominating CE retailing in the United States.

In the past year, the rich have become richer, and the poor, poorer. Superpower Circuit City increased its sales by 27 percent last year, to $1.72 billion, while Highland Superstores and Silo, Nos. 2 and 3 in the country, respectively, also saw sales increases in the 25 percent range. No. 14, The Good Guys, was the only other chain to see sales jump by 20 percent or more (24.5 percent).

Best Buy, Tops, The Wiz, American TV, and Wall to Wall Sound all had healthy sales increases in the 15 percent range, and two other chains, Newmark & Lewis and Luskins, returned from 1987 losses to post profits in 1988, although both reported sales decreases.

Newmark & Lewis marked the occasion by announcing its conversion to an everyday low price strategy, vowing to take the bargaining out of consumer electronics shopping, similar to the Sears and Ward "no argument" policies.

Fred Schmid, the Denver retailer, announced that it would join the movement toward superstores, and noted that it would upgrade its audio, car audio and home office presentations to become more competitive, particularly with Brand Central.

The oft-repeated complaint within the industry, that there's nothing on the horizon to replace the sales lost when the VCR market reached maturity, will probably be heard even more frequently this year. At the summer CES show, buyers seemed pleased with the number of value-added products available, and were delighted with the vast increase in moderately priced home office goods, like fax machines and personal copiers.

Nevertheless, the most exciting new technologies, like HDTV, digital audio tape and recordable/erasable compact disc recorders, appear to be many years away from retailers' shelves.

Growth, therefore, will continue to be a function of market share and market domination. To continue to grow, retailers will have to get a bigger share of what appears to be only a slightly larger pie. Look for continued expansion by the biggest chains, and rearguard actions from their smaller brethren in 1990.

Central
PANASONIC

While Sears' Brand Central is still in its infancy, it is growing and should become a major market force within the year. (DSN photos)

BEST AVAILABLE COPY

Computer Formats Spur Variety in ER

The burgeoning, diversified electronic retailing industry is undergoing rapid changes as the core companies expand their operations, some firms drop out of the business and other players launch ventures.

Despite the heightened interest in electronic retailing, most discounters and other traditional full-line retailers have been reluctant to make major commitments to ER endeavors. The cost of providing shopping through ER ventures, along with questions about the return on the investment have combined to reinforce the usual conservative attitude of traditional retailers toward new, unproven marketing methods.

Special retailers and manufacturers, particularly in the computer area, are major players, especially in three ER segments: telephone and computer shopping, online interactive computer shopping and interactive kiosk shopping. Computer product retailers and manufacturers are keenly interested in the computer shopping mode as PCs are a key ER access device and computer users are their natural customers.

HSN Penetrates TV Homes

Passive cable shopping remains the dominant format within the ER field, due to the fact that more than half the nation's homes are tied into cable TV and can access at least one teleshopping service. The Home Shopping Network, the leading teleretailer, also airs its shopping programs on more than two dozen broadcast TV stations, so that over 75 percent of the nation's TV homes can tune into some video ER show.

Cable teleshopping has also witnessed the greatest agitation, undergoing a major shakeout during the past three years that has reduced the players to four companies, with Cable Value Network also operating two other services that had been in Chapter 11, America's Shopping Channel and The Fashion Channel.

JCPenney has made a major commitment to teleshopping by taking a controlling interest in Shop TV, renaming the service the JCPenney Shopping Channel. Sears, meanwhile, provides some merchandise to QVC, with that teleshopper planning to launch a second service later this year that would be devoted to retailers selling merchandise in their own one-hour shows.

JCPenney has turned its attention to passive cable shopping to offset its investment in interactive teleshopping, which has stagnated. JCPenney switched off Telaction, its start-up interactive venture that was tested in Chicago, because of high development costs, failure to gain support from cable systems to carry the service and the retailer's own indecision about how the teleshopper fitted into its marketing plans.

Similar marketing uncertainty is evident at Main Street, GTE's interactive teleretailing venture. That service continues a very low-key test involving about 150 subscribers on a Newton, Mass., cable system. Main Street will also be tested as a small element of GTE's planned launching later this year of a fiber optic network for the Apollo CableVision system in Cerritos, Calif.

The greatest ER ferment is taking place in the other formats, particularly the videotex online interactive computer shopping area which is attracting a growing number of companies.

Within the direct computer service area, PRODIGY has staked out a strong position for itself by changing from a test venture in about a half dozen markets last year to an ongoing shopping-oriented business this year that expects to be in two dozen markets containing about 40 percent of the nation's homes. PRODIGY projects adding another 12 areas next year, making the service available to half the nation's homes.

PRODIGY is unique in that merchandise providers on the service include retailers like Sears, JCPenney, K mart, Lechmere and the Broadway, and manufacturers like Fuji, Levi Strauss and Rubbermaid, along with the specialty retailers found on the other videotex systems.

The ER spotlight is on the online interactive computer services because of the potential number of shoppers that can be accessed through this technology. PRODIGY, for example, reached about 20,000 PC users at the start of the year but expects to sign up over 100,000 subscribers by the end of the year.

The other online computer companies—which offer shopping as just one of an extensive mix of information services—have a total of about 750,000 customers who have made a financial and intellectual commitment to using a PC every day. ER is viewed as an extension of these subscribers' use of their PCs.

Minitel, meanwhile, has launched its nationwide service, which is modeled on a similar venture in France and which can access shopping and information services in a number of European countries.

The key change in the videotex segment, however, has been the recent launching of gateway services by four major telephone networks (telcos), with a fifth phone company, Pacific Bell, planning to start another service, California Online, next year. The telcos' gateways are the connections that enable computer users to access a host of shopping and information services, with various companies, not the telcos, actually providing the services.

Electronic Shopping Services

Passive Cable Shopping

Company	Sales (In Millions)		Cable Systems Carrying	Homes Passed (In Millions)
	1988	1987		
Home Shopping Network[1] St. Petersburg, Fla.	$730.1	$582.1	1,700	25.8
Cable Value Network[2] Minneapolis, Minn.	345.2	151.2	1,850	21.0
QVC West Chester, Pa.	193.2	112.3	1,100	16.0
JCPenney Shopping Channel Los Angeles, Calif.	7.9	0.6	125	7.0
The Fashion Channel[2] Carson, Calif.	NA	5.5	650	10.0
America's Shopping Channel[2] San Diego, Calif.	NA	NA	3	0.7

[1] Home Shopping Network viewership figures don't include broadcast reach; total reach is 55 million viewers.

[2] Cable Value Network sales don't include America's Shopping Network and The Fashion Channel, which are operated by CVN.

Interactive Cable Shopping

Main Street Stamford, Conn.	Ongoing test on a Newton, Mass., cable system. Test planned for a Cerritos, Calif., system in fall.

Telephone and Computer Shopping

Company	Revenues (In Millions)		Number of Members		Number of Suppliers
	1988	1987	Phone	Computer	
Comp-U-Card[3] Stamford, Conn.	$ 271.8	$ 198.5	3.04 mil.	60,000 Comp-U-Store Online	1,100

[3] Comp-U-Card revenues are for membership and service fees only; it receives 5 percent of sales of undisclosed amount of merchandise. Its Comp-U-Card Online computer service, including Shoppers Advantage, is also accessed through a number of computer online services.

Online Interactive Computer Shopping

Direct Computer Services

Company	Number of Subscribers	Number of Direct Suppliers	Main Shopping Services
CompuServe Columbus, Ohio	500,000	100	The Electronic Mall Shoppers Advantage
Prodigy Services Co.[4] White Plains, N.Y.	20,000	100	PRODIGY
GEnie (GE Information Services) Rockville, Md.	115,000	20	GEnie Mall Comp-U-Store Online
Delphi[5] (General Videotex) Cambridge, Mass.	50,000	11	Merchants' Row
Quantum[6] (Quantum Computer Services) Vienna, Va.	80,000	15	The Mall
Minitel[7] Purchase, N.Y.	May 1989 start-up; Can access Comp-U-Store Online in the United States and Auchan hypermarket in France.		

[4] Prodigy Services requires dedicated software.

[5] Delphi's Merchants' Row includes CUC Online.

[6] Quantum requires dedicated software for its three services: Apple for Apple PCs, Q Link for Commodore PCs, and PC Link for IBM and compatible PCs. The service's The Mall include CUC Online.

[7] Minitel can also be accessed through a dedicated Minitel terminal.

Telephone Gateway Services

INFO-LOOK (Nynex) New York, N.Y.	April 1989 start-up in metro New York; can acccess Comp-U-Store Online. New York and New England market has 11 million customers.
Gateway (Bell Atlantic) Philadelphia, Pa.	April 1989 start-up in Philadelphia; can access Comp-U-Store Online and Delphi. Mid-Atlantic States market has 16 million customers.
SourceLine[8] (Southwest Bell) Houston, Texas	April 1989 start-up in Houston; can access Comp-U-store Online, Delphi, Minitel and Main Street Shopping. South Central States market has 9 million customers.
Community Link (US WEST) Englewood, Colo	October 1989 introduction of service in Omaha, Neb. Pacific Northwest and Rocky Mountain States market has 9 million customers.

[8] SourceLine is Southwest Bell's computer service. It also offers QuickSource interactive phone shopping/information service.

Interactive Kiosk Shopping

Kiosk/Company	Number of Kiosks	Number of Markets	Number of Suppliers
Gift Host USA (Advanced Interactive Video) New York, N.Y.	19	5	35
Gift Sender (Sears) Chicago, Ill.	10	1	NA

NA—not available

Source: DSN research; company reports; CableVision

Young Chains Race for Market Share

The three-year-old discount office supply industry continues on a fast track growth pace that will again produce explosive increases in sales and number of stores.

But this growth will also result in more pressure on the industry's core of 20 chains to strengthen their operations and financial position and to capture larger market shares. The chains that do so will be in a better position to survive the shakeout expected to strike the megastore business in the next two to five years.

That shakeout will be triggered by two interrelated factors. The first is the industry's growth, which will see an increasing number of chains battling each other. The other is efforts by membership warehouses and traditional office supply vendors (wholesalers and independent stationary stores) to sharpen their operations to retain their customers, the same small businesses being targeted by the discount office supply chains.

Few office supply warehouses are profitable, with Office Depot being the only public chain that has a positive bottom line of $3.8 million in earnings. The key reason for the red ink flowing through the industry, of course, is the high start-up costs in launching a large enough base of stores in as short a time as possible to, hopefully, become a market power.

As part of this drive to firm up the balance sheet, the next six months to a year will witness a stepped-up effort by a number of the privately held companies that account for about half of the industry's chains to go public to obtain the funds to fuel their growth.

Four additional chains have already gone public—HQ Office Supplies Warehouse even before it unveiled any stores—and a number of others are developing proposals as the preliminary step to launching their initial public offering (IPO).

About half of the industry's chains were funded by venture capital groups. An IPO is often the key way in which the venture group obtains a profit from their investment in start-up companies.

The industry's growth will mirror the impressive sales gains that marked the early years of the membership warehouse business. Office supply superstores' volume this year should reach about $2 billion, almost triple last year's $714 million in revenues. These sales will reflect the opening of at least 185 stores this year and the maturation of the 89 units unveiled in 1988.

A mature office supply warehouse generates about $10 million in sales, according to information in the prospectuses from public companies. The rapid expansion being pursued by most chains will result in big volume jumping for the next few years as new units reach their sales stride.

Last year sales were a 93.0 percent jump from the $370 million achieved in 1987.

The major share of the industry's revenues now comes from office supply superstores and office supply warehouses, two formats used by most of the discount office supply chains. However, most of the industry's sales in its start-up 1986 and 1987 years came from traditional stationary chains like Arvey Paper & Office Products and Jaffe's that were converting to discount office supply stores.

The office supply warehouse format focuses a chain's operation mainly on supply businesses and uses the warehouse environment—steel H-frame fixtures, concrete floors, bare ceilings—pioneered by membership warehouses. One chain, Office Club, even sells memberships which allow cardholders to buy goods at 10 percent less than non-members pay.

The superstore concept adds a number of traditional retailing features to the basic office supply warehouse format. These include greater use of traditional gondolas, tiled floors, carpeting in the office furniture section and even the merchandising of items geared to consumers to generate additional business.

Host of Services

In both formats, the discount office supply chains offer a host of services like telefaxing, duplicating, parcel shipping, printing and deliver to enhance their appeal to small businesses as well as strengthen their marketing position against their competitors—membership warehouses and traditional office supply vendors. The latter segment of the office supply field still accounts for the largest portion of office supply sales—about 75 percent—but that share is falling as megastores sales blossom.

The office supply superstores merchandise 5,000 sku's to 7,000 sku's, with the mix designed to meet the ongoing needs of small business. The seeming success of this effort is evident by the fact that about 40 percent to 50 percent of a chain's sales is in general office supply, with business machines accounting for about 30 percent, office furniture account for another 20 percent and services like faxing, janitorial supplies and consumer items like art supplies the remaining volume.

The industry's growth will be spurred by the 20 chains almost doubling their store count to over 380 units this year, an increase of over 93 percent from the 197 megastores they operated at the start of 1989. However, those figures don't indicate the operational revamping underway at Arvey and Jaffe's, which plan to convert all their stores to megastores. About one-third of the Arvey's have been changed, while almost all the Jaffe's are now megastores.

The headlong expansion undertaken by most chains has resulted in head-to-head competition in an increasing number of markets. The battles aren't just in major cities like Los Angeles, Chicago, Philadelphia, Miami, Dallas and St. Louis, but in communities that don't, at first glance, seem to be home to the large numbers of small businesses needed to sustain multichain competition. These smaller markets include Denver, Phoenix, Ariz., Nashville, Tenn., Columbus, Ohio, as well as Charlotte, N.C.

The current expansion, in turn, for the first time will result in every one of the 20 chains competing with at least one other megastore in some markets—and, in a number of areas, two and three chains. Office Club, WORKplace and HQ Office Supply Warehouse compete in Southern California; BizMart, The Office Place and Office Club battle in Denver; Staples, Office America and National Office Warehouse in Columbus, Ohio; and Office Square, Arvey and Office World square off in Chicago.

Chicago is one of a growing number of markets in which megastores are banging heads. Office World (above) faces competition from Office Square and Arvey in the Windy City. (DSN photo)

Office Supply Megastores

	Sales (In Millions)		Percent Change	Number of Stores			Average Store Size (In Sq. Ft.)
Chain	**1988**	**1987**		**1/88**	**1/89**	**Proj. 1/90**	
Office Depot Boca Raton, Fla.	$132	$ 34	288.2%	10	26	55	20,000
Staples Newton, Mass.	120	40	197.5	9	22	38	16,000
Super City Tucson, Ariz.	100	100	0.0	17	16	16	15,000
Arvey Paper & Office Products Chicago, Ill.	100	100	0.0	34	36	40	20,000
Office Club Concord, Calif.	51	11	363.6	5	15	28	16,000
Jaffe's Miami, Fla.	40	25	60.0	7	10	14	20,000
WORKplace St. Petersburg, Fla.	25	10	150.0	2	6	17	20,000
The Office Place Boulder, Colo.	25	24	4.2	5	6	15	NA
BizMart[1] Arlington, Texas	20	0	—	0	10	28	22,000
O.P. Club[1] Phoenix, Ariz.	15	0	—	0	6	15	18,000
The Paper Cutter Liverpool, N.Y.	15	12	25.0	12	14	22	12,000
Office Max Detroit, Mich.	15	0	—	0	3	15	25,000
Office Shop Warehouse[1] McKeesport, Pa.	15	0	—	0	6	6	15,000
Action Indianapolis, Ind.	11	7	57.1	4	5	7	20,000
Office World[1] Great Neck, N.Y.	10	0	—	0	4	14	25,000
National Office Warehouse Columbus, Ohio	7	5	40.0	2	3	8	15,000
Office America Richmond, Va.	6	2	200.0	1	5	14	20,000
Office Square[1] San Antonio, Texas	5	0	—	0	2	2	25,000
OW Office Warehouse[1] Virginia Beach, Va.	2	0	—	0	2	14	25,000
HQ Office Supplies Warehouse[2] Long Beach, Calif.	0	0	—	0	0	14	25,000
Total:	$714	$370	93.0%	108	197	382	

[1] *BizMart, O.P. Club, Office Shop Warehouse, Office World, Office Square, OW Office Warehouse were start-ups in 1988.*

[2] *HQ Office Supplies opened first store in February 1989.*

NA—not available

Source: DSN *research*

Sears, Penney, Ward Go Their Separate Ways

The Three General Merchants (a.k.a. Sears-Penney-Ward)

Chain	Sales (In Billions)		Percent Change	Earnings* (In Millions)		Percent Change	Number of Stores		
	1988	1987		1988	1987		1/88	1/89	Proj. 1/90
Sears Merchandise Group Chicago, Ill.	$30.3	$28.1	7.8%	$ 299	$1,350	(77.9%)	811	824	884
JCPenney Plano, Texas	14.8	15.3	(3.3)	1,192	979	21.8	1,378	1,355	1,335
Montgomery Ward Chicago, Ill.	4.8	4.6	4.3	130	139	(6.3)	316	324	350

*Earnings represent operating income from continuing operations, before taxes and extraordinary items.

Source: DSN research

(Continued from page 1)

Sears' reformatting has been slower, and while the company has taken a more brand-intensive approach (particularly in men's and consumer electronics), its method of doing business has not yet changed appreciably enough to merit a similar inclusion.

Penney's decision to take the high road, and compete with department stores rather than discounters, showed mixed results in 1988. While profits for the year rose by $200 million to $807 million, the company noted that most of the increase resulted from the sale of its New York City headquarters.

Penney Sales Increase Slim

Sales dropped $500 million, mainly due to the sale of a Belgian operation, but even with that factored out, the sales increase for the year was a microscopic 0.4 percent.

On the other hand, gross margin increased to 34.5 percent from 33.8 percent, probably as a result of the concentration on high-margin family apparel.

At the newly leaner Montgomery Ward, sales rose slightly to $4.8 billion, while profits increased to $139 million. While both Sears and Ward have taken a much more sharply priced approach to retailing, Ward seems to have been more successful at pricing its merchandise against major competitors such as K mart, Marshalls, and Circuit City. Sears, due in large part to its enormous cost of doing business, has been less successful at pricing against its chief competitors.

Instead, Sears has taken a more eclectic approach, offering price reductions while maintaining its traditionally high level of service. At the recent Consumer Electronics Show, it was apparent that the company is also in the process of upgrading its Brand Central CE department, particularly in the home office area. The inclusion of hot products (like a portable fax machine) unavailable to many of its competitors, coupled with the Sears name and credit card, could easily make Brand Central a dominant force in the CE industry.

In a similar vein, Sears' recently unveiled men's department features top fashion brands unavailable or available only in limited quantities to discount competition. As this new format makes its way to Sears' 830 stores nationwide, it should have a large impact on casual apparel retailing at large.

Ward, too, shares many of these advantages. The company has access to brands not normally available to discount chains, and it has a well-known franchise among American consumers. That it seems to have moved faster than Sears in containing costs and revamping its stores is in part due to its volume—about one-quarter that of Sears.

Also, Ward chief executive officer Bernard Brennan evidently made a decision to go all the way in revamping his stores. Sears, and Brennan's older brother Edward, moved much more gradually, in an attempt to retain the loyalty of regular Sears shoppers while attracting new consumers. Only time will tell which, if either, strategy was the more effective.

The short-term result, however, is that Ward has positioned itself as a low-cost provider, and has taken its everyday low price strategy message to consumers nationwide. During Sears' publicity blast in mid-March, when nearly every major newspaper in the United States carried both lead news items and Sears advertising spreading the news, Ward quietly announced record sales.

Penney, meanwhile, has evidently succeeded in carving out a niche as a "mass specialty" apparel store. Its catalog sales have boomed, and the company said it plans to continue to expand its soft lines orientation.

Whatever the final result, 1988 marked the breakup of an American institution—the Sears/Penney/Ward classification in U.S. retailing.

We can't keep you in the dark any longer.

Niche Concept Spreads; 1988 Sales Vault 23%

Deep discount drug chains—which apply the discount stores' philosophy to the H&BA, cosmetics and pharmacy categories—continued to flourish in 1988 as the concept gained greater acceptance and moved into new markets.

Leading the pack, with estimated 1988 sales of $880 million was Worthington, Ohio-based Drug Emporium. The chain's revenue increased 10 percent over the past year, while store count jumped to 170, up from 139 in 1987.

During the year, the chain looked to increase its company-owned stores in both new and existing markets, while also reclaiming some of its former franchised regions such as the Los Angeles area. Already in 1989, Drug Emporium has opened its first new store in five years in Los Angeles, where its former franchise operation's growth had stalled at five sites.

Also recognizing markets with strong growth potential has been Phar-Mor. The Youngstown, Ohio-based chain was second in total sales volume, with revenue climbing some 50 percent during 1988 to $752 million.

Likewise, store count also increased greatly at Phar-Mor, rising from 74 sites in 1987 to 114 stores in 1988. Currently the chain is operating some 123 locations and 40 more units are expected to open this year.

Operating some 66 sites in 1988 was the third-highest revenue producing chain F&M. The Warren, Mich.-based retailer saw its sales climb 22 percent to $402 million during 1988, while the number of stores grew from 54 to 66 locations.

During the year, F&M entered new markets—with the help of Washington D.C. store acquisitions—while also increasing its presence in existing markets such as Milwaukee, Detroit and Chicago.

Rockbottom, Port Washington, N.Y., increased its sales by 21 percent and its store count by one, while Middleburg, Ohio-based Marc's sales rose 8 percent as its store count increased to 15 units.

Wal-Mart's dot drug chain witnessed increased sales last year, as the chain grew to 14 units. Yet despite the gain, Wal-Mart began looking for a buyer in '88 and future growth was put on hold.

Top Deep Discount Drug Store Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores	
	1988	1987		1/88	1/89
Drug Emporium Worthington, Ohio	$ 880	$ 800	10.0%	139	170
Phar-Mor Youngstown, Ohio	752	500	50.4	74	114
F&M Warren, Mich.	402	330	21.8	54	66
Rockbottom Port Washington, N.Y.	200	165	21.2	25	26
Marc's Middleburg, Ohio	197	182	8.2	12	15
Freddy's[1] Woonsocket, R.I.	130	95	36.8	14	18
Drug Palace[2] Shiremanstown, Pa.	78	49	59.2	28	40
dot[3] Bentonville, Ark.	70	56	25.0	12	14
A.L. Price[4] Pontiac, Mich.	49	36	36.1	10	14
Rx Place[5] New York, N.Y.	46	44	4.5	8	8
Cost Cutters[6] Somerville, N.J.	42	39	7.7	9	10
Drug Castle[7] Springfield, Ohio	41	38	7.9	10	10
Drug World[8] Cincinnati, Ohio	32	40	(20.0)	12	9
Total	$2,919	$2,374	23.0%	508	513

[1] *Freddy's is owned by Melville.*
[2] *Drug Palace is owned by Rite Aid.*
[3] *dot is owned by Wal-Mart.*
[4] *A.L. Price is owned by Perry Drug.*
[5] *Rx Place is owned by Woolworth.*
[6] *Cost Cutters is owned by Community Distributors.*
[7] *Drug Castle is owned by Brown.*
[8] *Drug World is owned by SupeRx.*

Source: Drug Store News *Chain Drug Survey;* DSN *research*

Our bright ideas are selling like crazy.

Concept Grows in Face of Uncertain Future

Hypermarkets in the United States

Chain (Parent)	**Sales** (In Millions)		**Opening Date**	**Number of Stores**			**Average Store Size** (In Sq. Ft.)
	1988	**1987**		**1/88**	**1/89**	**Proj. 1/90**	
Hypermart USA (Wal-Mart, Cullum Cos.) Bentonville, Ark.	$275	0	Dec. 1987	1	3	3	220,000
Bigg's (Euromarché, Super Valu) Cincinnati, Ohio	150	100	Oct. 1984	1	3	4	200,000
Big Bear Plus (Harts, Big Bear) Columbus, Ohio	75	0	June 1989	0	4	4	100,000
Carrefour (Carrefour PLC) Philadelphia, Pa.	60	0	Feb. 1988	0	1	1	170,000
Auchan (Auchan Group) Woodridge, Ill.	5	0	Oct. 1988	0	1	2	180,000
Twin Valu (ShopKo, Super Valu) Minneapolis, Minn.	0	0	March 1989	0	0	2	180,000
American Fare (K mart, Bruno) Troy, Mich.	0	0	Jan. 1989	0	0	2	200,000
Total:	$565	$100		2	12	18	

Source: DSN *research*

From almost nothing, hypermarket merchandising last year developed into a half billion dollar business and is likely to reach $1 billion this year.

Despite this impressive growth, the fledgling industry's future is uncertain.

The questions range from the simple issue of consumers' willingness to shop at such mammoth stores to major concerns about how to efficiently and profitably merchandise and manage such units. Biggs, which has been in the field since late 1984, reportedly made its first profit last year for its French parent.

Doubts about the viability of the hypermarket concept of marketing food and non-food together in huge stores are evident even among the American discounters plunging into this business. Both Wal-Mart and K mart regard their hypermarket ventures, Hypermart USA, and American Fare, respectively, as tests and plan in-depth probes before committing themselves to any major rollout of their initial units.

Wal-Mart launched its first Hypermart USA, in a joint venture with Cullum Cos., a food wholesaler, 18 months ago in Dallas, and added two stores last year—another in Dallas and one in Topeka, Kan. While all three units are stand-alone mini-malls and destination stores, the next Hypermart USA, set to open in Kansas City, Mo., early in 1990, will be the anchor in a strip center and office complex that is across from a major existing shopping center.

K mart, in a joint venture with Bruno, a food chain, debuted American Fare in Atlanta five months ago and plans another smaller store this year in Charlotte, N.C., with two other units on the drawing boards.

Expansion moves at the other hypermarket chains vary. Discounters ShopKo and Harts are proceeding slowly with their ventures while European-based companies proclaim deep commitments to the concept as they already operate hypermarkets on the continent and in Latin America.

Biggs will unveil a hypermarket in Denver this fall as its first thrust out of its Cincinnati home, anchoring an off-price mall. It plans to open two Louisville, Ky., units as off-price mall anchors, and is eyeing three more units, including a second store in Denver and one in Tampa, Fla.

Carrefour, whose parent is the leading hypermarket chain in France, is seeking sites for more stores while fighting a zoning ruling that stopped it from opening a unit in Brookhaven, N.Y. Its next store will now be in Fort Lauderdale, Fla.

Auchan, another major French hypermarket chain, plans additional units, but is focusing its current efforts on learning how to merchandise to American consumers.

We outshine our competition where it counts most to retailers.

Variety Chains Close Money-Losing Stores

All but the two largest variety store chains are in crisis. Wave after wave of new competitors have swallowed up many chains over the years, and only those that have kept up with the changing currents are still afloat.

The top two companies, Woolworth and McCrory, were able to increase operating profits during 1988; Ben Franklin and Sprouse stores, however, were seriously in the red.

Privately held Winn's Stores would not indicate whether the company had suffered a loss, but sales dipped to $139 million in 1988, from $144 million the year before.

Four of the five chains examined closed more stores than they opened last year in an effort to curb their losses. Smaller stores, especially those in highly competitive markets were often the first to go; larger stores have been found to be better sales generators on the whole.

Most of the troubled chains announced new strategies to regain their customer base in annual reports to shareholders. New prototype formats were the main ingredient of success for McCrory and Woolworth, and perhaps the smaller variety chains could enjoy a similar turnaround.

To signal its new strategies to shoppers, the Sprouse-Reitz Stores chain changed its trade name and logo to "Sprouse!" New store layout and updated merchandising approaches being implemented this year are expected to help turn around the chain's poor performance. The first prototype store was opened in Corvallis, Ore., last November, under the new logo and focused interior format.

Radical change at Sprouse-Reitz is warranted following an operating loss of $1.3 million in 1988, down from earnings of $1 million in 1987. The chain's profits surpassed the $9 million mark in 1984, but have shrunk each year since. The chain operates stores in the West, primarily in California, Washington, Oregon and Arizona, facing competition from Fred Meyer, Price Club, Target, K mart and others.

Ben Franklin Stores, operated and franchised by FoxMeyer, lost $27 million on sales of $342 million in 1988. FoxMeyer incurred these losses when it overhauled the entire Ben Franklin business last year, restructuring wholesale operations, systems and management in the process. These changes, in turn, led to the relocation of corporate offices, installation of new computer systems, reconfiguration of distribution centers, and hiring a new management team, according to corporate reports.

FoxMeyer acknowledged that, "This conversion process had a severe impact on Ben Franklin's ability to service franchisees and resulted in a significant sales shortfall."

Woolworth's plans for 1989 are to continue pursuing the development of specialty store chain concepts. Regarding its variety store operations, Woolworth management appears to have the attitude, "if it ain't broke, don't fix it."

The company will continue to develop its Woolworth Express concept, which focuses on several key categories such as H&BA, stationery and greeting cards. While Woolworth plans to spend $316 million in capital expenditures for 800 new specialty stores, only four new variety store openings are scheduled.

On the other hand, McCrory plans over 70 new variety store openings this year. It was only a year ago that the company unveiled its new Phase V prototype store in Las Vegas. The format is reportedly on plan with its performance goals. The new stores will be conversions of the Odd Lot stores McCrory bought earlier this year.

Like Woolworth, McCrory has begun experimenting with new retail formats, including the launch of a new closeout chain called Bargain Time which is scheduled to evolve into a 200-unit chain by year-end (see story, page 126). Most of these closeout stores will be conversions of McCrory's TG&Y stores.

Top Variety Store Chains

Chain	**Sales** (In Millions)		Percent Change	Number of Stores			Average Store Size (In Sq. Ft.)
	1988	1987		1/88	1/89	Proj. 1/90	
F.W. Woolworth Co. New York, N.Y.	$2,097	$2,027	3.5%	1,140	1,100	1,104	16,000
McCrory Stores York, Pa.	1,391	1,481	(6.1)	1,258	1,240	1,315	14,000
FoxMeyer/Ben Franklin Carol Stream, Ill.	342	339	0.8	1,150	1,200	1,275	10,000
Sprouse-Reitz Stores Portland, Ore.	216	219	(1.4)	313	310	315	15,000
Winn's Stores San Antonio, Texas	139	144	(3.5)	215	210	200	13,000
Total:	$4,185	$4,210	(0.6%)	4,076	4,060	4,209	

Source: DSN *research*

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Dollar Stores Infiltrate Depressed Markets

If the discount store industry is a jungle, dollar stores are guerrilla warriors: small stores built quickly, inexpensively, operating on market terrain too restrictive for retailing tanks like hypermarkets, warehouse clubs or discount department stores.

The markets targeted by dollar stores are often situated in areas where income levels are too low to attract specialty store operators.

Averaging 5,000 square feet in size, dollar stores are frequently found in depressed areas: urban outskirts, rural townships and some suburban strip malls in the South and the Midwest.

Dollar stores can easily be overlooked when scanning the discount retail picture, but the top four chains combined represent over $1.5 billion in sales and more than 3,200 retail stores. By the end of this year, this store count will shoot to over 3,500.

The three leaders—Family Dollar, Dollar General and Bill's Dollar—are similar to one another in their division of sales of hard goods and soft goods, which is roughly 50/50. Each targets roughly the same shopper demographics: families with incomes of between $15,000 and $20,000.

Top Dollar Discount Store Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Family Dollar Charlotte, N.C.	$ 700	$ 560	25.0%	1,350	1,509	1,650	7,000
Dollar General[1] Scottsville, Ky.	566	588	(3.7)	1,302	1,302	1,372	6,000
Bill's Dollar Stores Jackson, Miss.	191	164	16.5	340	400	500	6,000
Bargain Town Corp.[2] Montgomery, Ala.	55	42	31.0	58	60	60	14,000
Only a Dollar Norfolk, Va.	18	8	140.0	21	58	100	2,000
Total:	$1,530	$1,362	12.3%	3,071	3,329	3,682	7,000

[1] Dollar General sales adjusted to reflect 12-month period ended Dec. 31. Company's new fiscal year ends Jan. 31.
[2] Bargain Town sales include Bargain Town dollar stores and approximately 40 Simply Six one-price apparel units.

Source: DSN research

The market overlap among the dollar stores in very high; almost all of the stores are no further west than Texas, with an especially high concentration in the South. But each of the top three are addressing a specific area of their business to differentiate itself and become the better retailer.

For example, Bill's Dollar Stores, with plans to have 1,000 stores in operation by 1993, is in the process of installing a satellite communications network to improve communications between stores.

Family Dollar has begun its second year as an everyday low price dollar chain, which, while hurting its bottom line, drove sales up 25 percent during 1988. Opening 160 new stores no doubt contributed to the sales increase as well.

Dollar General is focusing on cost controls. The company reported plans to lower advertising costs to 2 percent of sales this year, compared with 2.5 percent last year.

The company plans to reduce hiring costs by giving more attention to selection, scheduling and training—all of which is expected to curtail employee turnover at Dollar General stores. Tougher negotiation for lower store leasing costs will be emphasized this year. The chain also plans to cut self-insurance costs by "increased focus on general liability and workers' compensation claims," as stated in the annual report.

Bargain Town, acquired by the Kinder-Care Specialty Retail Group in the fall of 1987, is atypical among dollar store operators, due both to the unusally large size of its stores and its slow expansion rate. Much of the Specialty Retail Group's growth is attributable to the year-old Simply Six women's one-price apparel store chain. These stores sell apparel similar to Bargain Town's, but in a more upscale environment.

Only a Dollar, a relative newcomer to the business, has been differentiating itself from other dollar stores. The chain has developed an upscale interior atypical of other dollar stores. In fact, like specialty stores, the format has been welcomed into regional malls, making Only a Dollar the first chain of its kind willing to accept the higher lease costs. Unlike other dollar stores, as much as 65 percent of Only a Dollar's sales come from soft lines.

Typical of traditional dollar stores, though, Only a Dollar has expanded rapidly, doubling both store count and volume between 1987 and 1988.

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Newcomer Joins Elite Group of Top Chains

By year-end, the Big Two of closeout retailing promises to become the Big Three, now that McCrory Stores is rolling out its new Bargain Time chain.

With intentions to be running 200 Bargain Time stores by the end of 1989, McCrory could do $250 million in business a year, acknowledged James Guinan, chief operating officer and chairman of Consolidated Stores.

With its expansion strategy, McCrory appears to be emulating the rapid growth of Consolidated, the industry leader with 1988 sales of $627 million (including $25.5 million at wholesale) and operating profits of $41.6 million.

Initially a wholesaler of closeout goods, Consolidated opened its first retail store in 1983 and is opening about 50 stores a year on top of its January 1989 count of 308.

McCrory started to test its first Bargain Time store last year and began 1989 with only four units. Of the four, two operate in Florida. Its key to rapid expansion is to convert former TG&Y variety stores acquired in 1986 in the Southeast to the Bargain Time format, with stores averaging 10,000 square feet in size.

McCrory initially converted many of the units, strung across the Gulf Coast, to its McCrory variety store format, but with unsuccessful results. Now it plans a second conversion to a no-frills closeout format based on the tag line, "We sell stuff cheap."

It plans to convert stores at the rate of four per week, market by market, starting with Oklahoma City.

Bargain Time units will carry a basic core of ongoing merchandise in paper products, cleaning supplies and H&BA to keep customers coming in and will supplement those basics with opportunistic buys.

In addition to the TG&Y units converted to variety stores, McCrory also retains considerable real estate inventory in the form of the TG&Y units it closed but still rents. Its priority will be converting the units operating as variety stores, then the closed TG&Y stores.

Closeout Buying Staff

To acquire a closeout buying staff—key to success in this niche of discounting—the parent company of McCrory, the Riklis Family Corporation, bought for $37.1 million the 103 stores of Odd Lot Trading, Elizabeth, N.J., from Revco, the drug store chain that was operating in Chapter 11 bankruptcy.

McCrory is keeping only 70 to 75 of the Odd Lot stores and soon will scrap the name entirely. Of the retained units, McCrory will convert about 50 or so into inner-city McCrory stores. And by year end, McCrory will convert the balance of the 20 to Bargain Time units.

Bargain Time operates as a division of McCrory, a spokesman said. McCrory bought Odd Lot as an opportunity to acquire good variety store sites in the inner cities and a closeout buying staff, rather than as an operating entity.

With operating profits of $96.3 million on 1988 sales of $1.39 billion, McCrory appears to have the deep pockets to back its new venture.

The No. 2 company in closeout sales is Pic 'N' Save, Carson, Calif. In 1988, it earned $77.7 million from operating 158 stores. Sales were $401.7 million.

To gain a toehold on the East Coast, Pic 'N' Save last year bought the 16-store Job Lot Trading chain from the parent company of Wisconsin Toy, Milwaukee, Wis., a toy closeout operator.

To support its expansion drive eastward, Pic 'N' Save broke ground last year for a $40 million distribution center in New Orleans. The distribution center should open early in 1991, said Lewis B. Merrifield III, president and chief executive officer.

From its base market of California, the Southwest and Texas, Pic 'N' Save has expanded into Louisiana with three stores and will open five stores this October in a new market, Atlanta. The acquisition of Job Lot, with $48 million in 1988 sales, gave Pic 'N' Save entry into the New York metro market, including Northern New Jersey.

Following Atlanta, Florida will be the next probable expansion market for Pic 'N' Save, Merrifield said.

When it opens in Atlanta, it will find 10 Consolidated Stores units in operation. It opened its first unit there last November, Guinan said, and nine more June 16. From its Midwest territory, Consolidated Stores also is filling in a new market, Alabama, where it will open four more stores on top of last year's first three, Guinan said.

Both Guinan and Merrifield agree that closeout retail sales are increasing by as much as 20 percent, even though their own companies' sales grew last year by 6.3 percent and 11 percent, respectively.

The difference comes from a number of small chains and the closeout portion of full-line discount store sales.

At Schottenstein Stores, Columbus, Ohio, a very high percentage of goods sold in its 50 Value City discount stores and four-unit Schottenstein Stores chain is closeout merchandise.

Dollar volume for closeouters is approaching $2 billion, Merrifield estimates.

Because of the volume of new products vendors introduce, enough closeout goods always will be available. But closeout chains "constantly have to scramble" to locate goods, Merrifield said.

Making Rapid Strides

Although Wisconsin Toys got out of the general closeout business by divesting Job Lot, it is making rapid strides in the operation of its new toy closeout retail chains, Toy Liquidators and Toys Unlimited.

It operated 50 stores at the beginning of 1989, an increase from 24 in 1988, and plans to add 35 more during the year.

In 1988, Wisconsin Toys, also a wholesaler of closeout toys, earned $3.5 million in operating profits on retail sales of $26 million.

Tuesday Morning, Dallas, also operates on a specialized basis. Its 101 stores, with 1988 sales of $82 million, are closed much of the year. Tuesday Morning units open only during specified peak selling seasons.

Other closeouters of the same magnitude include Odd Job Trading, New York, $65 million in 1988 sales from 16 stores, and Building #19, Hingham, Mass., $80 million from nine stores.

On a discordant note, Glosser Bros., Johnstown, Pa., which declared Chapter 11 bankruptcy in April, has closed about 13 of its Dollar Bargain closeout chains over the past 12 months and now operates 37.

Top Closeout Chains

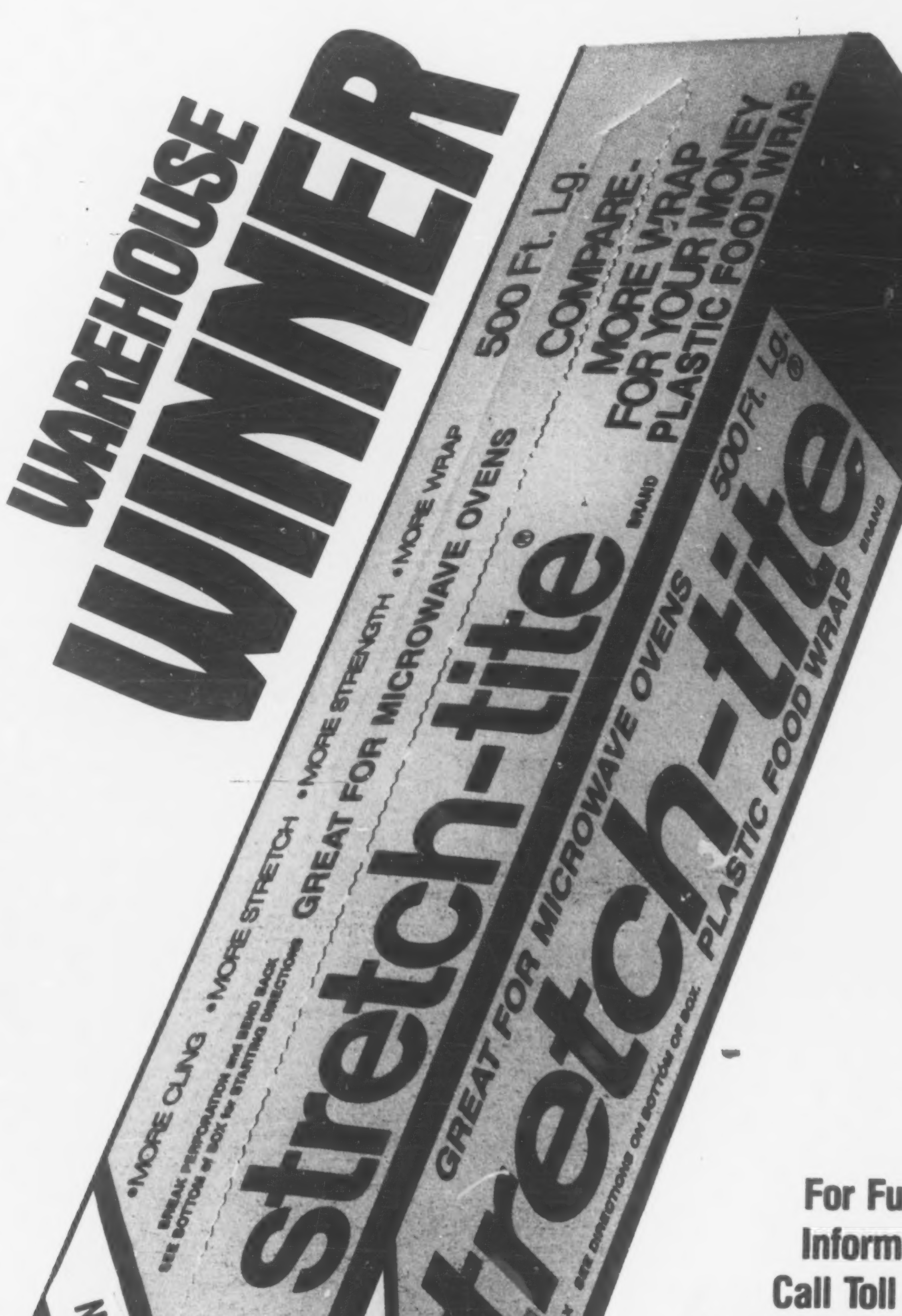
Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Consolidated Stores[1] Columbus, Ohio,	$ 627	$ 590	6.3%	295	308	335	28,000
Pic 'N' Save[2] Carson, Calif.	402	362	11.0	125	158	188	24,000
Tuesday Morning Dallas, Texas	82	73	12.3	85	101	113	8,200
Building #19 Hingham, Mass.	80	73	9.6	9	9	10	80,000
Odd Job Trading New York, N.Y.	65	55	18.2	7	16	16	NA
Total:	$1,256	$1,153	8.9%	521	592	662	

[1] *Consolidated Stores includes 1988 wholesale sales of $25.6 million.*

[2] *Pic 'N' Save includes Job Lot Trading, acquired December 1988.*

NA—not available

Source: DSN research



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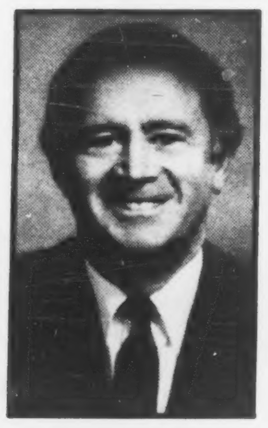
It's Time to Acknowledge Men as Serious Shoppers

By Harvey D. Braun



Men and teenagers are getting serious about shopping. Not just for athletic shoes and compact discs, but for a whole range of items that at one time had been within the province of women shoppers only. As more work outside the home, much of the family shopping is being done by husbands and children. And, as more men live alone (in Los Angeles, for example, 39.6 percent of a group of surveyed shoppers are single, never married), men have to be taken seriously as serious shoppers.

Impact Resources of Columbus, Ohio, affiliated exclusively with Touche Ross, surveyed men and teenage shoppers (aged 14 to 17) in four locations—Los Angeles, St. Louis, Minneapolis and New York—and found them to be a worthy target for retailers to pursue. Consider the fact that more than 50 percent of the men in Los Angeles and more than 42 percent of the men in St. Louis and New York consider themselves the primary grocery shopper in their household. Teens are also active in the supermarket, as 20 percent in Los Angeles, 13 percent in St. Louis and 16 percent in New York do much of the family grocery shopping.

And, the implications for general merchandise retailers are just as strong. Let's take a look at the shopping habits of both teens and men.

Between 25 percent and 32 percent of the 3,500 teens in the four locations shop for groceries once a week, and in three of the four cities another 12.5 percent shop more than once a week. Each of these grocery shoppers averages between $71 and $75 per shopping trip. Attesting to the seriousness of these shoppers is the fact that in three locations (excluding Minneapolis) between 37 percent and 42 percent use coupons "regularly" or "occasionally."

Percent of Men Shoppers Planning Major Purchases This Year

Car/Truck	16%-24%
Furniture	11%-14%
Home Appliance	8%-10%
Jewelry/Watch	8%-11%
TV/VCR	8%-12%
Stereo Equipment	7%-11%

Source: Impact Resources

Teens consider shopping a preferred leisure activity, surpassed only by movies, TV, listening to music and, in some places, going to the beach. Though the girls in the survey have a stronger preference for shopping than the boys, healthy percentages of boys (63 percent in St. Louis and 54 percent) cite shopping as a popular way to spend their free time.

In shopping for clothes and shoes, teens (both boys and girls) are like their elders in citing selection as their primary consideration in choosing a store. But while the adults are apt to shop discount stores for some of their clothing and footwear purchases, the teens stay away in droves, making their purchases almost exclusively in upscale department and specialty stores.

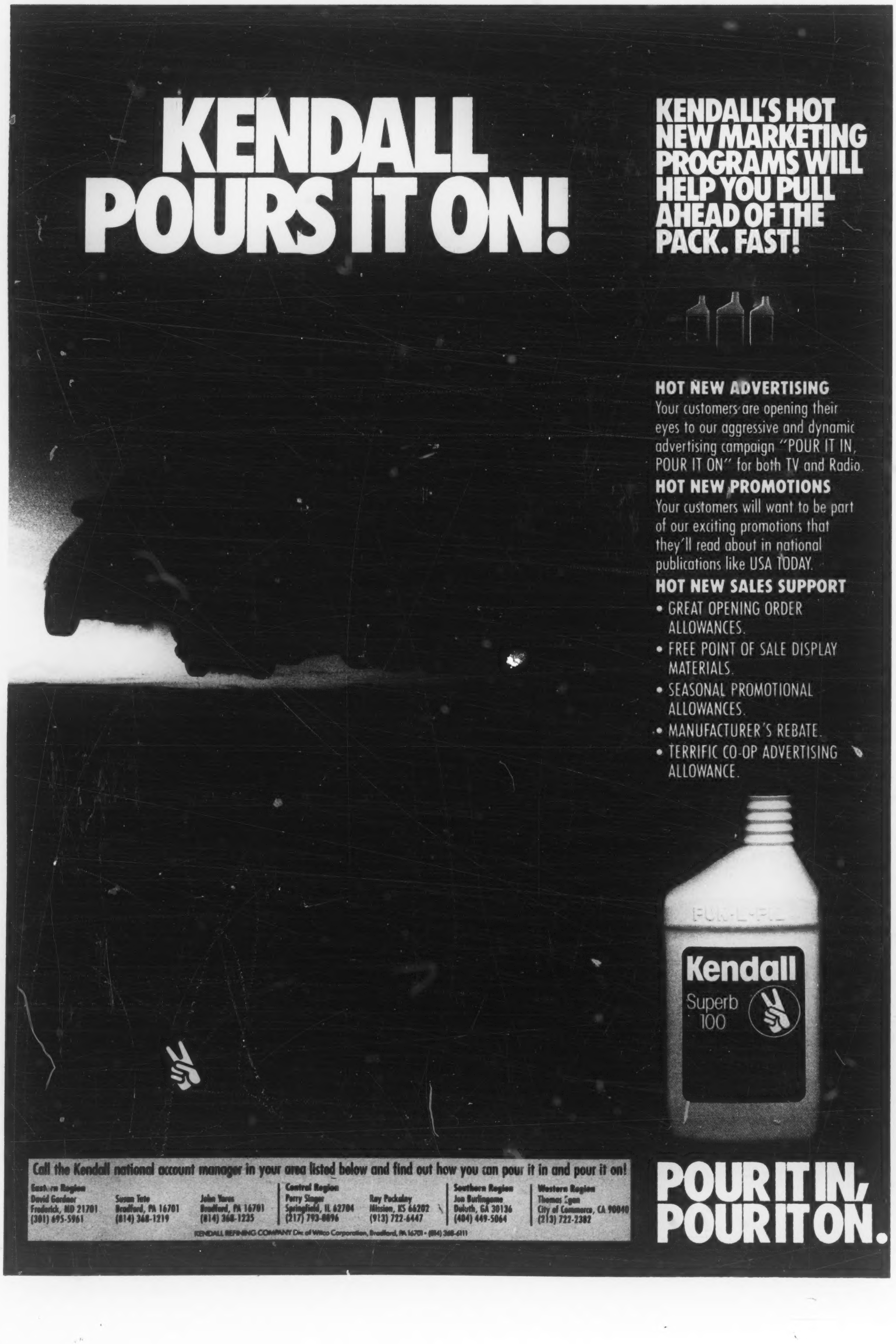
Discount stores fare somewhat better with teenagers in the area of health and beauty aids, as teens will purchase H&BA products there, but not to the extent their elders do. It seems the discount industry would do well to consider new ways of attracting these young men and women to their stores.

Who Are These Teens?

Most are students, 73 percent in grades 9 to 11. They live at home with 3+ other persons, one of whom is under 18. House-dwellers outnumber apartment-dwellers by from 3.5-to-1 to 10-to-1 in the different cities. Ethnic representation shows 54.7 percent of the teen shoppers to be white, 18.7 percent to be His-

(Continued on page 141)

Harvey D. Braun is national partner for retailing and chairman of the Retail Services Group at Touche Ross, the Big Eight accounting and consulting firm. Now based in the firm's national office in New York, Braun has consulted to retailers on a range of issues for over 25 years.



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POUR IT IN, POUR IT ON.

Acknowledge Men as Serious Shoppers

(Continued from page 136)

panic. In St. Louis, the percentage of white teens is higher (68.5 percent), and black teens make a significant showing (25 percent). In New York, the breakdown is 65 percent white, 16 percent black and 9 percent Hispanic. In Minneapolis, almost 88 percent of the teen shoppers are white, with 4 percent black and 3 percent Asian.

Good numbers of survey respondents indicated they have regular jobs, though we assume most of these are part-time jobs. But every retailer today knows how much of the retail work force is made up of youngsters between 14 and 17, which means that if these teenagers are working, they are earning money and spending it somewhere.

These part-time jobs may account, in part, for the fact that these teens attend three to four movies a month and rent movies for their VCRs in large numbers. There is somewhat of a discrepancy in terms of ownership of compact disc players, however, as 33 percent of the teens in Los Angeles and 28 percent in New York own these machines, compared to only 22 percent in St. Louis and 18 percent in Minneapolis.

How can you reach these teens? In all four locations, they seem receptive to phone solicitations, billboard and transit advertising, and direct mail advertisements. They are definitely reachable, but finding the message they will listen to is the key.

The 17,000 men surveyed in the same four locations express an attitude that suggests retailers ought to consider them also in their marketing plans. Aside from their grocery shopping (at which they spend between $50 and $58 per trip), these men attest to shopping the full range of retail stores.

Though they rank shopping further down on their list of favorite leisure time activities than do teens, shopping is on the list of between 32 percent (in New York) to 47 percent (in St. Louis).

And, a good many men—ranging from 7 percent to 24 percent of those surveyed—have definite intentions of making major purchases in the coming year, such as a car/truck, furniture, home appliances, jewelry or watches, TV/VCR or stereo equipment (see chart, page 136).

Where do these men make these purchases? In all four cities, they buy their own clothing in stores that offer the best selection. But for items such as televisions, stereos, appliances and the like, price is the criterion cited first most often. In terms of store preferences for general merchandise, selection is their prime criterion.

Catalog and direct mail buying are not popular with these men, as only between 6 percent and 8 percent of them use this form of shopping "regularly" through television shopping shows.

What does a profile of these men shoppers look like? Between 58 percent (St. Louis) and 71 percent (Los Angeles and Minneapolis) are between the ages of 18 and 54. A good many are married (from 40 percent in Los Angeles to 56 percent in St. Louis), but obviously many of them are not. So in advertising to them, retailers must take a dual approach: seeing roughly half of them as a complement to women and seeing the other half as independents.

Between 36 percent and 42 percent of the men hold "professional/managerial" jobs earning them an average annual salary of between $32,000 a year (Minneapolis) to $38,000 (New York).

Home ownership among these men ranges from 58 percent in St. Louis to 41 percent in Los Angeles. Between 30 percent (New York) and 45 percent (Minneapolis) do work around the house regularly, and between 17 percent (New York) and 29 percent (Minneapolis) work on their cars.

In the homes of a large majority of these men you will find a microwave oven; in just over half you'll find cable TV; and in about one-third of them (less in Minneapolis) there is a home computer.

About half the respondents said they listen to "some" telephone solicitations, and considerably less read half or more of the advertising circulars they receive.

What to Do

A television commercial of one major auto manufacturer shows a very "with it" woman buying a car, and bringing her man along "to pick out the color." That commercial is acknowledging a change in today's woman buyer. Isn't it time retailers acknowledge a new role for men as serious shoppers?

Are you reaching these teens and men, these serious shoppers? They are becoming a powerful force. Do you know where and how to find them? Are your radio and TV commercials, and your print ads focusing on these seemingly untapped sources of new sales?

Bonny Breaks Ground for New N.C. Plant

WASHINGTON, N.C. — Bonny Products, a division of American Brands, Greenwich, Conn., held a unique groundbreaking ceremony for its new 100,000-square-foot manufacturing plant, distribution center and headquarters here.

Pictured (left to right) are Richard Main, vice president, manufacturing; Robert Furer, president; and Barry Macklin, vp, marketing. Bonny will move its headquarters offices from Lynbrook, N.Y., and its manufacturing plant from Hauppauge, N.Y.

The new plant is expected to be completed by the end of the year. Bonny plans to add an additional 200,000 square feet of space in the next two years.

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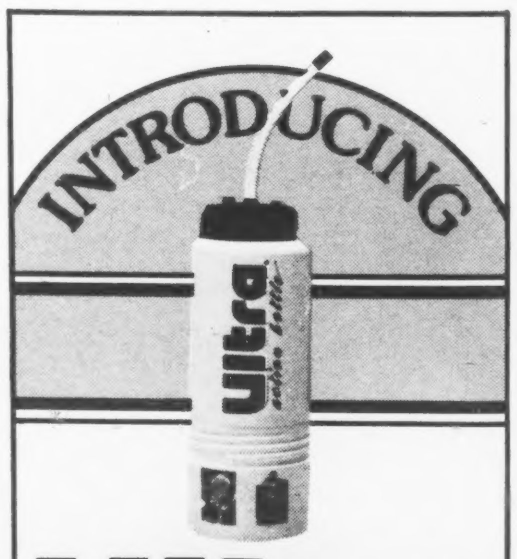

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Ames' Acquisition of Zayre Stores Main Focus of Meeting

(Continued from page 3)

1989 losses associated with the purchase.

"The acquisition has allowed us to enter new markets, including growth areas like Florida and Chicago, and also to increase our market penetration in other areas," he said. "We have doubled our assets, sales and sales space . . . and become the fourth-largest discounter in the U.S."

Other pluses: at a purchase price of 23 percent of sales, Zayre was a bargain; and the fit between the two organizations' product mix, store types and management have resulted in a relatively easy merging of the two discounters.

In the near future, Ames will fully digest the Zayre stores, with the exception of 58 units in Baltimore, Chicago, Miami, Fla., and Washington, D.C., Hollis said. Ames will restructure Zayre's field and store management, improve store standards, install point-of-sale (POS) registers and full price lookup, and introduce electronic scanning. In addition, all Zayre stores and 30 Ames stores will be linked by satellite by Sept. 1.

> ***The conversion of Zayre stores to Ames stores is proceeding 'on or ahead of plan.'***
>
> —Peter Hollis
> president and ceo, Ames

By Nov. 1, Hollis promised that Zayre stores will be in-stock on promotional goods at all times, and will be narrower and deeper in product mix. Like Ames, they will also have converted to an everyday low price strategy.

Overall, 1988 was a "very productive year," Hollis said. He cited the following signs:

- Net profits rose by 38 percent;
- Shrinkage returned to the industry average;
- Same store sales increases were above those of competitors like K mart and Target;
- Gross margins were up one percentage point on average;
- Ames' new prototype was "a hit" with consumers;
- The company continued to become more efficient at buying and distributing goods.

As the new prototype spreads to more stores, and satellite communications, electronic scanning and price lookup bring the chain further into the modern retail world, efficiencies and profits should increase, he explained. In addition, Hollis noted that increased profitability should be apparent in both the third and fourth quarters of this year.

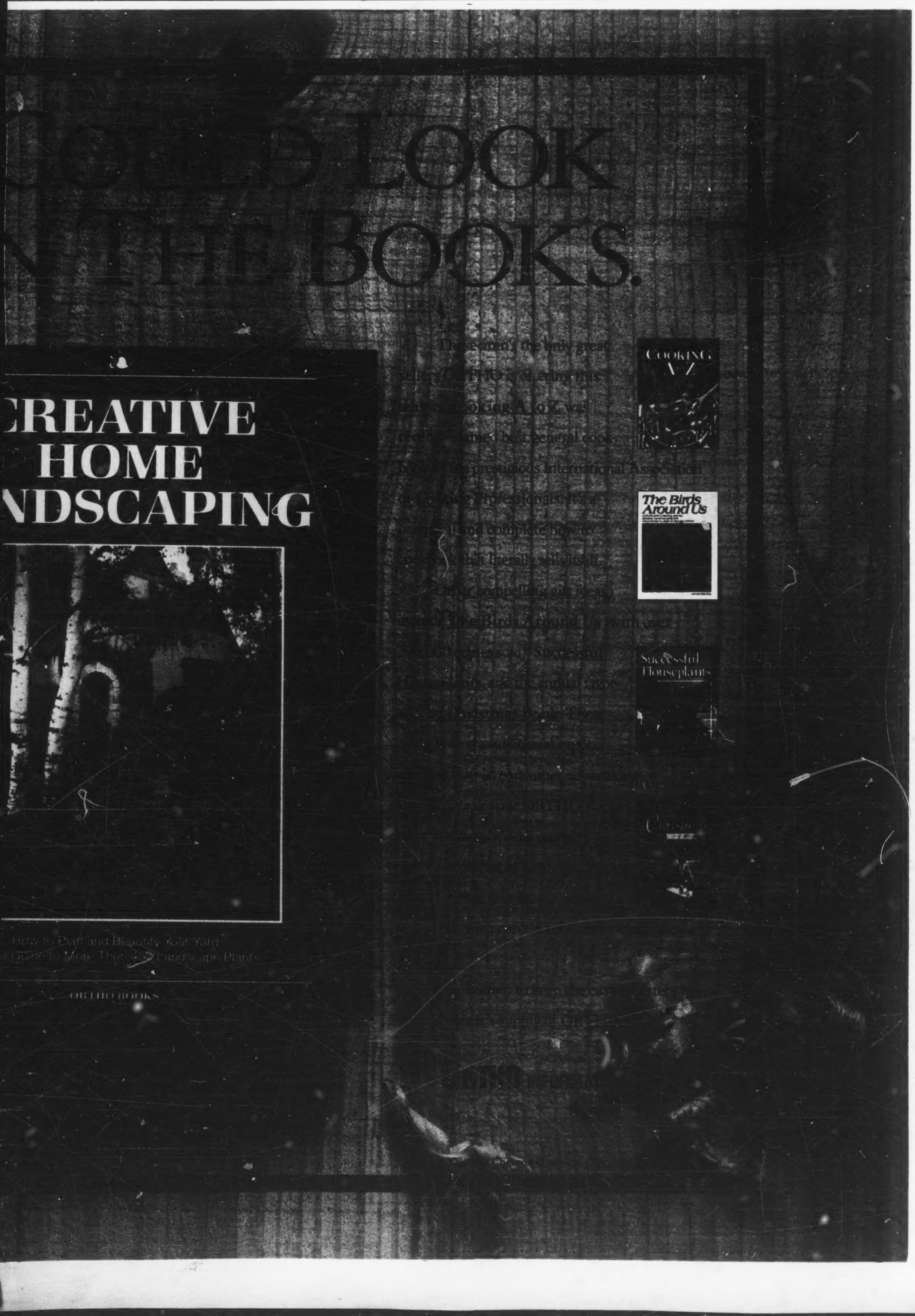
In addition to expenses related to the Zayre acquisition, first quarter sales and earnings were depressed by unseasonably cold spring weather, Hollis added. May sales were up as weather improved.

In other operations, Hollis confirmed that the company is actively seeking to sell the G.C. Murphy variety store division, after digesting the chain's discount stores, and that Crafts & More, the new specialty chain that was started last year, is a hit and will be rolled out as quickly as possible. At year-end, the company expects to have 34 units operating.

The future of another specialty concept, Office Shop Warehouse, appears to be more uncertain. While the chain has been profitable, Crafts & More has been much more productive, and Ames plans to expend its energies in that direction, leading to speculation that Office Shop might be on the block.

Hollis also announced that the company sold $200 million in long-term 13 percent notes, with the intent of retiring other long-term debt. In all, senior long-term debt should drop by some $130 million by next year.

"We're in the process of deleveraging the company," chairman James Harmon noted, adding that the debt, much of it associated with the Zayre acquisition, was "too much" for the company's health. Ames plans to reduce debt overall by 40 percent.



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